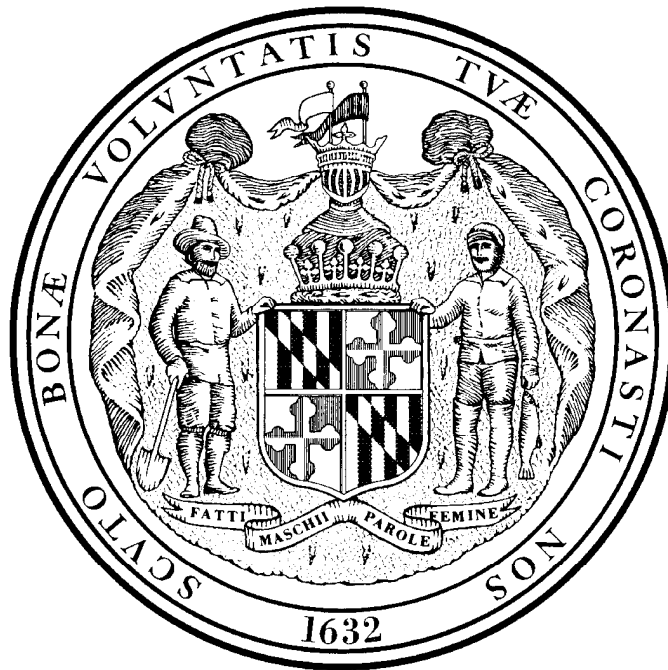


SPENDING AFFORDABILITY COMMITTEE

2002 Interim Report



ANNAPOLIS, MARYLAND
DECEMBER 2002

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MARYLAND GENERAL ASSEMBLY
SPENDING AFFORDABILITY COMMITTEE

December 18, 2002

The Honorable Parris N. Glendening
Governor, State of Maryland
State House
Annapolis, Maryland 21401

Dear Governor Glendening:


We are pleased to submit the fiscal policy recommendations of the Spending Affordability Committee made during the 2002 interim. These recommendations were adopted by the committee at its meeting on December 17, 2002. The committee reviewed data concerning the economic condition of the State, revenue and expenditure trends during the past several years, personnel data, the current status of the State Reserve Fund, the Transportation Trust Fund, and the results of the Capital Debt Affordability Committee report.

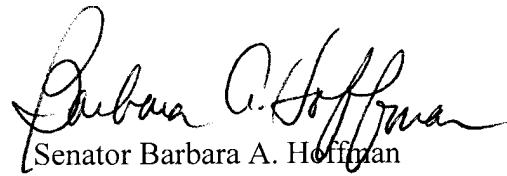
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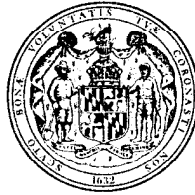
The Spending Affordability Committee has completed its assigned tasks. As required by law, the recommendations of the committee have been submitted to the Governor and the Legislative Policy Committee.

We are most appreciative of the time and effort expended by each member of the committee. A special note of thanks and appreciation is extended to the members of the Citizens Advisory Committee for their valuable assistance and input.

Sincerely,


Delegate Norman H. Conway
Presiding Chairman


Senator Barbara A. Hoffman
Senate Chairman



MARYLAND GENERAL ASSEMBLY
SPENDING AFFORDABILITY COMMITTEE

December 18, 2002

The Honorable Thomas V. Mike Miller, Jr., Co-Chairman
The Honorable Casper R. Taylor, Jr., Co-Chairman
Members of the Legislative Policy Committee

Ladies and Gentlemen:


We are pleased to submit the fiscal policy recommendations of the Spending Affordability Committee made during the 2002 interim. These recommendations were adopted by the committee at its meeting on December 17, 2002. The committee reviewed data concerning the economic condition of the State, revenue and expenditure trends during the past several years, personnel data, the current status of the State Reserve Fund, the Transportation Trust Fund, and the results of the Capital Debt Affordability Committee report.

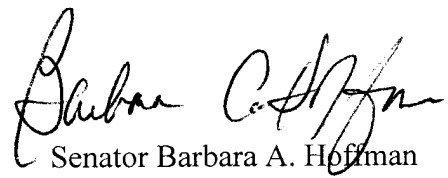
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Sincerely,


Delegate Norman H. Conway
Presiding Chairman


Senator Barbara A. Hoffman
Senate Chairman

Spending Affordability Committee

2002 Membership Roster

Delegate Norman H. Conway, Presiding Chairman
Senator Barbara A. Hoffman, Senate Chairman

Senators

Clarence W. Blount
Ulysses Currie
Leo E. Green
Patrick J. Hogan
Thomas M. Middleton
Thomas V. Mike Miller, Jr.
Donald F. Munson
Robert R. Neall
Ida G. Ruben

Delegates

Rushern L. Baker, III
Sheila E. Hixson
Martha S. Klima
Maggie McIntosh
Howard P. Rawlings
Alfred W. Redmer, Jr.
Samuel I. Rosenberg
Casper R. Taylor, Jr.

Citizens Advisory Committee

H. Furlong Baldwin
George R. Houston, Jr.
Dana M. Jones
John C. Miller

Staff

Lori J. O'Brien
David C. Romans

Contents

Governor's Letter of Transmittal	iii
Legislative Policy Committee's Letter of Transmittal	v
Membership Roster	vii
Spending Affordability Committee Report and Recommendations to the Governor and the Legislative Policy Committee	1
Part 1. Economic Outlook	11
Part 2. General Fund Revenues	17
Part 3. General Fund Budget	23
Part 4. General Fund Forecast	33
Part 5. Cigarette Restitution Fund	37
Part 6. Local Government Assistance	45
Part 7. Capital Outlook	51
Part 8. Transportation Trust Fund	61
Part 9. Refundable Earned Income Credit	65
Part 10. State Employment	69
Part 11. Spending Affordability Concept	77

2002 Spending Affordability Committee Report and Recommendations to the Governor and the Legislative Policy Committee

The Spending Affordability Committee was created in 1982 (Chapter 585, Acts of 1982). The committee is composed of 18 legislative members including the presiding officers, the majority and minority leaders, the chairmen of the fiscal committees (or their designees), and other members appointed by the presiding officers. A four-member citizen advisory committee assists the committee.

The committee's primary responsibility is to recommend to the Governor and the General Assembly a level of spending for the State operating budget that is reflective of the current and prospective condition of the State's economy. Consideration is given to constraining disproportionate growth in State-funded expenditures in any fiscal year which might necessitate or "build in" unsupportable levels of spending in future years. Thus, especially during periods of strong economic growth, the committee has attempted to exert a "smoothing effect" on spending.

The committee's prior recommendations and legislative action on the operating budget are reflected in the following table:

(\$ in Millions)				
<u>Session Year</u>	<u>Committee Recommendation</u>		<u>Legislative Action</u>	
	<u>Growth Rate</u>	<u>Amount</u>	<u>Growth Rate</u>	<u>Amount</u>
1982	10.18%	\$431.9	9.62%	\$412.8
1983	9.00%	428.0	5.70%	269.8
1984	6.15%	326.7	8.38%	402.0
1985	8.00%	407.2	7.93%	404.6
1986	7.70%	421.5	7.31%	402.2
1987	7.28%	430.2	7.27%	429.9
1988	8.58%	557.5	8.54%	552.9
1989	8.79%	618.9	8.78%	618.2
1990	9.00%	691.6	8.98%	689.7
1991	5.14%	421.8	5.00%	410.0
1992	No recommendation		10.00%	823.3
1993	2.50%	216.7	2.48%	215.0
1994	5.00%	443.2	5.00%	443.2
1995	4.50%	420.1	4.50%	420.0
1996	4.25%	415.0	3.82%	372.8
1997	4.15%	419.6	4.00%	404.6
1998	4.90%	514.9	4.82%	506.6
1999	5.90%	648.8	5.82%	640.6
2000*	6.90%	803.0	6.87%	800.0
2001**	6.95%	885.3	6.94%	884.6
2002	3.95%	543.2	3.40%	468.1

*2000 legislative action does not reflect \$266 million of Cigarette Restitution Fund (CRF) appropriations. CRF dollars were excluded because they had not previously been available to the State. The 2000 growth rate including CRF dollars was 9.16%.

**Data from the 2001 session and subsequent years reflect a revised methodology for calculating the spending affordability limit; data from the earlier years reflect the older methodology.

2002 Spending Affordability Committee Report

The committee notes that operating spending in relation to the State's economy, as measured by the personal income statistic, is lower now than when the spending affordability process began. As illustrated in the chart on the next page, throughout much of the 1980s, the ratio remained relatively stable. During the 1990 and 1991 sessions the combination of increased spending demands and economic slowdown caused the spending ratio to increase. Following the recession, however, operating spending in relation to personal income fell acutely. With the onset of a recession in 2001, spending in relation to personal income has again risen, but will remain below the high of 7.6% reached during the last recession.

The committee's statutory responsibility is to consider spending growth in relation to growth anticipated in the State's economy. In its review of the State's economy, the committee considered both income and wealth factors in developing a broad understanding of Maryland's economic position. In determining the spending limit, the committee has considered economic performance, revenue estimates, and budget requirements.

Economy

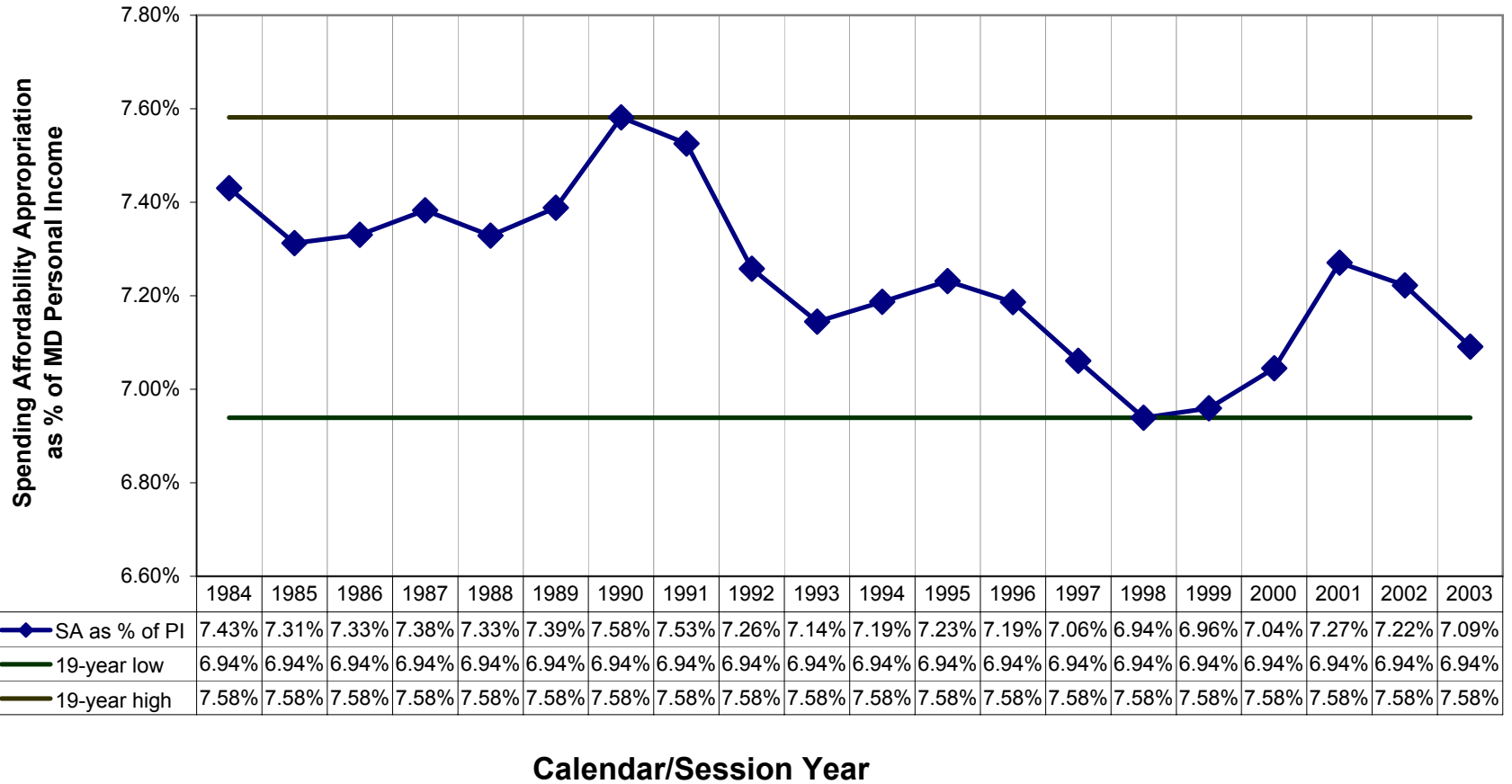
The year 2001 marked the end of the longest economic expansion in U.S. history. Economic growth in Maryland, especially employment growth, slowed sharply in 2001. Growth fell from over 2.6% in 2000 to 0.8% in 2001. Personal income growth also slowed significantly from 7.8% in 2000 to 4.9% in 2001. The Maryland economy has weakened further in 2002. Through the first ten months of the year, employment in Maryland is down 0.6% versus the same period in 2001. Employment has fallen, vis-à-vis 2001, in every month in 2002 except January when it was flat. Personal income growth in the first half of 2002 was 3.7% compared to the same period in 2001 while wage and salary income grew 4.0% over that same time period.

The recession that started in March 2001 likely ended in late 2001 or early 2002, although the official determination from the National Bureau of Economic Research has yet to be made. Regardless of when the recession technically ended, it is clear that the U.S. economic recovery has been weak and uncertain. Although most economists believe the odds of the U.S. economy falling into another recession over the next several months are small, no trend has emerged to drive the expansion. With year-over-year job growth still negative and business and consumer confidence rocked by corporate accounting scandals and the threat of war with Iraq, the short-term outlook for U.S. economic growth is sluggish at best. Beyond the near term, the U.S. economy is expected to pick up over the next 12 months, growing by about 2.5% in 2003. But employment growth is likely to be sluggish with the unemployment rate hovering around 6.0% throughout 2002 and 2003.

Revenues

The weak economic outlook has had an impact on the revenue outlook for the State. Fiscal 2002 ended \$131.4 million below the estimate. Total general fund revenues fell 3.0% from fiscal 2001 but that includes \$28.5 million from the tax amnesty program and

Ongoing Spending in Relation to Personal Income Under Spending Affordability Concept



Please note: Data from the 2001 session and subsequent years reflect a revised methodology for calculating the spending affordability limit; data from the earlier years reflect the older methodology.

2002 Spending Affordability Committee Report

\$119.5 million in a one-time transfer. Excluding those items, general fund revenues in fiscal 2002 fell 4.6% from fiscal 2001. The biggest source of weakness was in the State's most important revenue source, the personal income tax. General fund personal income tax revenues fell 7.1% in fiscal 2002 and were \$217.4 million below the estimate.

The lower revenues in fiscal 2002 and the weak economic forecast alter the outlook for near-term revenue growth. The Board of Revenue Estimates expects general fund revenues for fiscal 2003 to be \$344 million *less* than the estimate upon which the current budget is based. This estimate for fiscal 2003 represents an increase of 1.2% over ongoing revenues in fiscal 2002. Compared to total revenues in fiscal 2002, which include revenues from the tax amnesty program and a one-time transfer, fiscal 2003 revenues would be down 0.3%. Revenues are projected to grow 5.7% in fiscal 2004. This partly reflects the improving economic situation in the latter part of 2003 and into 2004. It also reflects some law changes that will increase general fund revenues, including the full amount of the tobacco tax increase that went into effect June 1, 2002, about \$25 million in teachers' retirement reimbursements and about \$14 million in hospital patient recoveries. In fiscal 2003, these revenues are deposited in special funds but will all be in the general fund in fiscal 2004. Without these fund swaps, general fund revenue growth in fiscal 2004 would be around 4.4% instead of 5.7%.

Budget Requirements

The committee is projecting a \$549 million general fund shortfall in fiscal 2003. Lower than anticipated revenues in fiscal 2002 and 2003 and an estimated \$100 million in deficiency need in fiscal 2003 account for the shortfall. Deficiency funding is necessary to meet demand for mental health services; fund higher than budgeted foster care placement costs; reimburse the counties for expenses related to inmates confined to local jails; and address unrealistic assumptions concerning federal fund attainment and general fund reversions. Cost containment actions announced by the Governor in November 2002 are not accounted for in the forecast, but will reduce fiscal 2003 spending by approximately \$172 million.

Legislatively mandated increases in education aid and escalating Medicaid and mental health expenses underpin the 6.8% increase in operating spending forecast for fiscal 2004. While the forecast does not anticipate a general salary increase for State employees, employment related costs increase significantly as most employees are expected to qualify for increments and pay-for-performance bonuses. Health insurance costs spurred by sharply rising prescription drug expenses are projected to increase by 14% in fiscal 2004. Savings from the abolition of almost 3,500 positions in fiscal 2003 are expected to total almost \$52 million in fiscal 2004.

If no actions are taken to decrease expenditures or generate additional revenue, fiscal 2004 operating expenditures could exceed revenues by \$1.2 billion. Factors contributing to the deficit include lower than anticipated general fund revenues in fiscal 2002 and 2003 and the use of \$643 million of one-time revenues to support fiscal 2003 spending. With general fund revenues and operating expenditures forecast to grow at about the same rate in fiscal 2004, the fiscal 2004 estimate does nothing to resolve the imbalance between ongoing revenues and

2002 Spending Affordability Committee Report

operating costs. The outlook for subsequent years is no better with expenditures driven by legislatively mandated increases in education aid expected to rise faster than ongoing revenues.

Recommendations

In light of the considerations discussed above, the committee proposes the following recommendations for the 2003 session:

1. Operating Budget

A. Spending Limit

Appropriations subject to the spending affordability limit shall be 2.5% over appropriations approved at the 2002 session. This limit would provide for a \$355.5 million increase in appropriations at the 2003 session, allowing for total expenditures subject to spending affordability of \$14,576.0 million. The limit is well below the 4.4% growth in personal income forecast for Maryland in calendar 2003. Given the volatile state of the economic recovery, the committee believes it prudent to set a conservative spending limit.

This limit recognizes the structural imbalance between general fund revenues and operating expenses that is forecast at \$1.2 billion for fiscal 2004. Adherence to the limit will require the Governor and General Assembly to make difficult decisions about the State's spending priorities while providing policymakers with the flexibility to address a portion of the structural imbalance through revenue enhancements.

B. Fiscal 2004 Budget and Future Sustainability

For fiscal 1993 through 2001, the State budget was balanced in a "business sense" that is, ongoing revenues were sufficient to sustain estimated operating costs. In fiscal 2002 operating spending exceeded ongoing revenues by approximately \$500 million. The gap is projected to grow to about \$1 billion in fiscal 2003 and \$1.1 billion in fiscal 2004. A continuing imbalance between ongoing revenues and operating spending is not sustainable. While transfers and other one-time revenue sources may serve as a tool to help the State through fiscal 2003 and 2004, the State has nearly exhausted such short-term remedies and cannot rely on them to balance the budget in future years.

The committee recommends that future sustainability be a primary consideration in the development of the fiscal 2004 general fund budget and that the imbalance between revenues and expenditures be erased entirely by fiscal 2005.

2. State Reserve Fund

In addition to its general fund recommendations, the committee also recommends a prudent use of the Revenue Stabilization Fund ("Rainy Day Fund") to address general fund

2002 Spending Affordability Committee Report

needs. Section 7-311 of the State Finance and Procurement Article establishes the Rainy Day Fund to retain revenues for future needs and guard against future tax increases. The section requires that the fund have at least 5% of the estimated general fund revenues. The statute allows for the withdrawal of funds. When the fund balance falls below 5%, the statute requires that \$50 million be appropriated into the fund annually until the 5% balance is restored.

In response to the State's fiscal 2003 revenue shortfall, the Glendening administration has recommended that \$189 million be transferred from the Rainy Day Fund to the general fund, leaving an estimated \$303 million in the fund at the end of fiscal 2003. This action, if implemented by the next administration, would leave 3.2% in the Rainy Day Fund at the end of fiscal 2003.

Insofar as the Rainy Day Fund balance is a conspicuous feature of State finance and is relied upon by bond rating agencies and others as a measure of State financial health and management, the committee expects that the fund be managed prudently. The rating agencies advise that use of the Rainy Day Fund during an economic downturn will not impact the State's AAA bond rating. However, they will look closely at the State's plan to restore structural balance between revenues and spending.

While recognizing that a resolution to the fiscal 2003 revenue shortfall may require the use of cash balances, the committee recommends the State withdraw funds from the Rainy Day Fund only if all other available cash balances are exhausted and other options have been fully explored. The committee also recommends that the General Assembly reject any proposal to withdraw funds from the Rainy Day Fund to support the fiscal 2004 budget that is not accompanied by:

- (1) A statutory commitment to appropriate at least \$100 million per year to the Rainy Day Fund until the balance is restored to 5% of general fund revenues; and**
- (2) A plan for achieving a structural balance between operating spending and ongoing revenues by fiscal 2005.**

3. Capital Budget

A. General Obligation Debt

The committee concurs with the provisional recommendation of the Capital Debt Affordability Committee (CDAC) that \$740 million in general obligation bonds may be authorized at the 2003 session. The final recommendation of CDAC will occur following a review of the official December revenue estimates. The \$740 million debt limit includes the customary \$15 million for annual growth in the capital program, \$5 million in funding for tobacco buyout and an additional \$200 million, same level as provided in the previous fiscal year. A portion of the \$200 million is to be used to complete the re-financing of the previously authorized general fund PAYGO projects that were reverted by the Budget Reconciliation and Financing Act of 2002. Also, the additional capacity will provide funding for those projects,

2002 Spending Affordability Committee Report

included in fiscal 2003 budget language, that were originally planned for fiscal 2003 but were deferred to fiscal 2004 in order to stay within the fiscal 2003 debt limit. The remainder of the additional bonding capacity is made available to relieve a portion of the future capital commitments in general funds planned for fiscal 2004. Hence, the bond funding may include the issuance of both taxable and tax-exempt.

Accordingly, the committee concurs in the provisional recommendation of the Capital Debt Affordability committee that \$740 million in new general obligation bonds may be authorized at the 2003 session. This limit, that includes an additional \$200 million in bonding capacity, allows for the use of taxable and tax-exempt bonds and gives the Governor and the legislature considerable flexibility to structure capital financing in the context of the total budget needs of the State.

B. Academic Revenue Debt

The committee concurs in the recommendation of the Capital Debt Affordability Committee that \$40 million in new academic revenue bonds may be authorized at the 2003 session.

C. Non-Tax Supported Debt

The committee notes the substantial growth in the debt burden of non-tax supported debt issued by certain State agencies and independent authorities. State law does not limit most of this debt. The debt outstanding for these agencies and authorities has grown 41% from \$6.7 billion in fiscal 1998 to nearly \$9.5 billion in fiscal 2002. In contrast, the general obligation debt burden grew less than 10% for that period. This rapid growth, if left unchecked, both increases the State's risk of market saturation of Maryland-related bonds and increases the pressure placed on the pledged revenues to cover the debt service. Currently, the State agencies and independent authorities authorized to issue debt are required to report each bond transaction over \$25 million. **In an effort to involve greater oversight, the committee recommends that the Capital Debt Affordability Committee include as part of its required annual review of the State tax-supported debt, a review of the non-tax supported debt. The review should include an assessment of the size and condition of debt issued by State agencies and independent authorities.**

D. Tobacco Securitization

Although in recent years a number of states have securitized a portion of their revenues from the master tobacco settlement agreement, any efforts to securitize Maryland's settlement revenues will have direct implications on the programs funded by the Cigarette Restitution Fund (CRF). Even without securitization, the projections of the tobacco settlement revenues show that the revenue stream is insufficient to fund programs currently funded both in fiscal 2005 and 2006. Securitization would exacerbate the shortfall in funding for CRF programs.

The experience of other states shows that the proceeds from issuing tobacco bonds have been used to fund special programs through endowments, one-time expenditures and as a temporary supplemental funding source for ongoing operating expenses. The use of tobacco

bond proceeds, with its significantly higher issuance and repayment costs, for the purpose of filling a general fund shortfall would represent a significant change in Maryland's policies on the use of debt.

The committee recognizes that it is neither a prudent State action nor a viable solution to use a long-term debt instrument as a mechanism for fixing a budget problem. The State's long-term debt capacity must be maintained for the benefit of the State's long-term capital improvement needs. **Thus, the committee does not support an issuance of tobacco bonds for the purpose of funding an operating deficit.**

4. State Positions

A. Hiring Freeze and Position Ceiling

Given current financial conditions, the prudent allocation of personnel resources is critical. The committee recognizes the continuing necessity of the current hiring freeze on non-essential positions. The Governor originally implemented this freeze in October 2001 as a way to constrain State spending. The Governor recommitted to the freeze in October 2002, closing many exemptions to the hiring freeze and rescinding the opportunity for agency heads to make exemption decisions. Personnel costs comprise approximately a quarter of the State operating budget, and any effort to permanently reduce personnel spending through position ceilings or other means will help resolve the structural budget gap.

Currently, there are approximately 5,400 vacancies. The budget committees are urged to examine whether some of the positions held vacant under the hiring freeze or other positions could be permanently abolished without seriously harming the operations of State government. The committee further recommends that an executive branch position ceiling of 74,100 positions, similar in structure to that implemented in Section 37 of the 2002 budget bill (Chapter 439, Acts of 2002) be implemented for fiscal 2004. This ceiling will require a net reduction of approximately 2,700 positions from current staffing levels.

B. Positions Added During the 2003 Session

To further constrain the growth in State spending, the committee recommends that the creation of new positions during the 2003 session be limited to:

- **critical public safety and homeland security needs; and**
- **facilities scheduled to open in fiscal 2004.**

5. Refundable Earned Income Tax Credit

Chapter 581 of 2001 increased the percentage of the federal earned income credit (EIC) on which the refundable State EIC is based, from 15% to 16% for tax years 2001 and 2002, to 18% for tax year 2003, and to 20% for tax years 2004 and beyond. Section 2 of Chapter 581 requires the Spending Affordability Committee to include in its final report this year a recommendation as to the fiscal prudence of accelerating the scheduled increase of the refundable EIC.

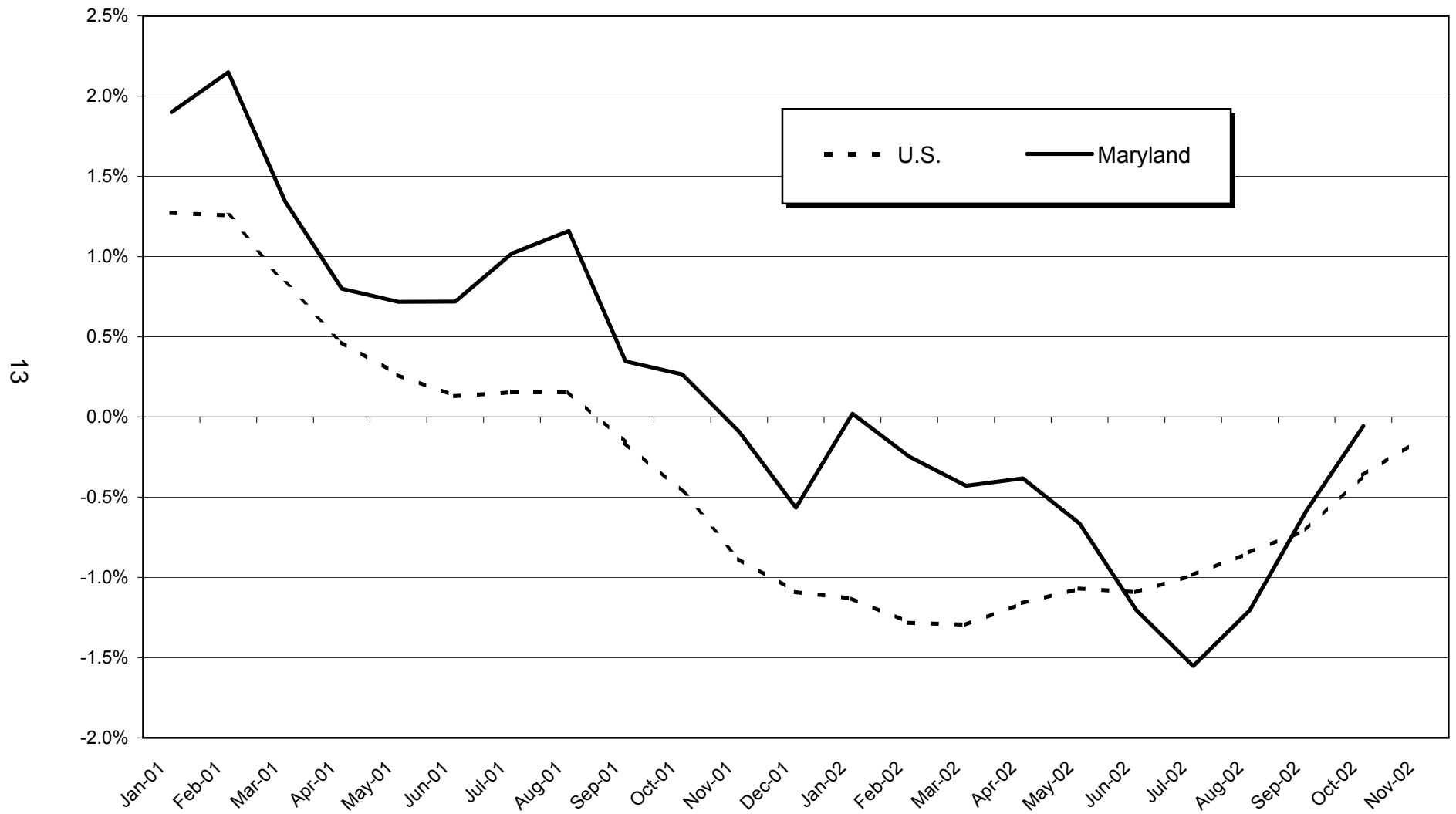
Acceleration of the scheduled increase in the refundable State EIC would mean that for tax year 2003 the percentage of the federal EIC on which the refundable State EIC is based, currently scheduled to be 18%, would instead be increased to 20%. This acceleration would reduce State income tax revenues for fiscal 2004 by an estimated \$10.6 million. **Given the fiscal condition of the State, the committee concludes that acceleration of the EIC phase-in is not affordable at this time.**

Part 1

Economic Outlook

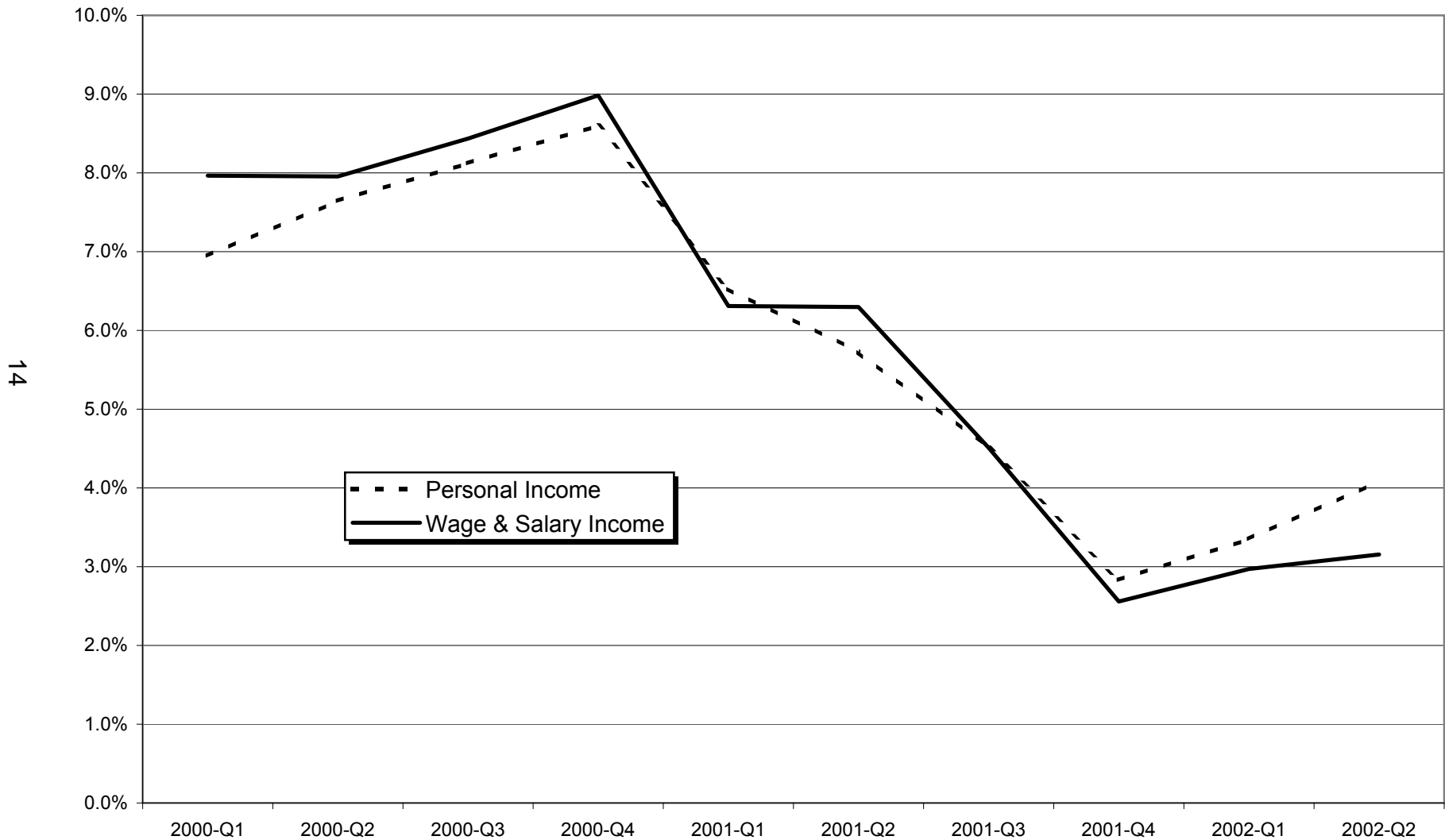
U.S. and Maryland Employment: 2001-2002

Year-over-Year Percent Change



Maryland Personal Income: 2000-2002

Year-over-Year Percent Change



Economic Forecasts

Year-over-Year Percent Change

	Calendar <u>Year</u>	U.S.	----- Maryland -----		Wage and Salary <u>Income</u>
		Real Gross Domestic <u>Product</u>	<u>Employment</u>	Personal <u>Income</u>	
15	1998	4.3%	2.5%	6.5%	7.1%
	1999	4.1%	2.6%	5.5%	6.7%
	2000	3.8%	2.6%	7.8%	7.8%
	2001	0.3%	0.8%	4.9%	5.2%
	2002E	2.4%	-0.6%	4.1%	3.9%
	2003E	2.5%	1.0%	4.4%	4.1%
	2004E	3.5%	1.6%	5.3%	5.9%
	2005E	3.1%	1.9%	5.3%	6.1%

Source: Forecast of U.S. gross domestic product from Economy.com, Inc. (December 2002). Forecast of Maryland employment and personal income from the Board of Revenue Estimates (December 2002).

Part 2

General Fund Revenues

Fiscal 2002 General Fund Revenues
(\$ in Millions)

Source	Actual	----- Fiscal 2002 -----			Percent Change
	FY 2001	Estimate*	Actual	Difference	FY 2001-2002
Personal Income Tax	\$5,133.7	\$4,989.1	\$4,771.6	-\$217.4	-7.1%
Sales and Use Tax ⁽¹⁾	2,626.8	2,635.5	2,642.5	6.9	0.6%
State Lottery	385.0	396.7	413.1	16.3	7.3%
Corporate Income Tax	374.4	245.2	273.2	28.0	-27.0%
Business Franchise Taxes	167.4	157.4	145.2	-12.2	-13.3%
Insurance Premiums Tax	190.4	192.7	193.7	1.1	1.7%
Estate & Inheritance Taxes	168.8	171.6	184.7	13.1	9.4%
Tobacco Tax ⁽²⁾	205.6	210.4	209.9	-0.5	2.1%
Alcohol Beverages Tax	24.5	25.1	25.7	0.6	5.0%
Motor Vehicle Fuel Tax	12.0	12.0	12.3	0.3	2.3%
District Courts	69.6	70.8	72.6	1.8	4.3%
Clerks of the Court	39.5	40.2	42.6	2.4	7.8%
Hospital Patient Recoveries	66.2	87.7	96.4	8.7	45.5%
Interest on Investments	140.6	72.6	71.5	-1.1	-49.1%
Miscellaneous	197.8	180.4	201.0	20.6	1.6%
Total Current Revenues	\$9,802.4	\$9,487.5	\$9,356.1	-\$131.5	-4.6%
GAAP Transfer	0.0	119.5	119.5	0.0	n.a.
Tax Amnesty	0.0	28.5	28.5	0.1	n.a.
Grand Total	\$9,802.4	\$9,635.5	\$9,504.0	-\$131.4	-3.0%

* From the Board of Revenue Estimates, March 2002, with adjustments for legislative action at the 2002 session.

⁽¹⁾ During the second half of fiscal 2002, 100% of the sales tax on short-term rental vehicles went to the Transportation Trust Fund (TTF), an increase from 45%. Also, fiscal 2002 revenues reflect the impact of the tax-free week in August 2001, which was estimated to have cost the State \$5.1 million.

⁽²⁾ SB 856 (2002 session) increased the State tobacco tax \$0.34 effective June 1, 2002. Approximately \$7.9 million in additional revenue was received in fiscal 2002 because of the tax increase, including \$313,000 in floor tax payments in May and June.

General Fund Revenue Projections
(\$ in Millions)

<u>Source</u>	FY 2002	---- FY 2003 Estimate* ----			% Change	FY 2004	% Change
	<u>Actual</u>	<u>May '02</u>	<u>December '02</u>	<u>\$ Diff.</u>	<u>FY02-03</u>	<u>Estimate*</u>	<u>FY03-04</u>
Personal Income Tax	\$4,771.6	\$5,072.0	\$4,807.2	-\$264.8	0.7%	\$5,081.7	5.7%
Sales and Use Tax ⁽¹⁾	2,642.5	2,767.5	2,730.3	-37.2	3.3%	2,850.8	4.4%
State Lottery	413.1	430.0	432.0	2.0	4.6%	448.4	3.8%
Corporate Income Tax	273.2	302.3	323.3	21.0	18.3%	330.1	2.1%
Business Franchise Taxes	145.2	168.6	154.8	-13.8	6.7%	158.0	2.0%
Insurance Premiums Tax	193.7	196.8	209.5	12.8	8.2%	215.8	3.0%
Estate & Inheritance Taxes	184.7	159.8	146.6	-13.2	-20.6%	149.9	2.3%
Tobacco Tax ⁽²⁾	209.9	212.9	211.8	-1.2	0.9%	275.6	30.1%
Alcohol Beverages Tax	25.7	25.0	26.2	1.2	1.7%	26.6	1.6%
Motor Vehicle Fuel Tax	12.3	12.1	12.3	0.3	0.7%	12.6	2.1%
District Courts	72.6	72.1	71.2	-0.9	-2.0%	70.5	-1.0%
Clerks of the Court	42.6	38.6	48.9	10.3	14.7%	45.8	-6.2%
Hospital Patient Recoveries ⁽³⁾	96.4	63.9	61.4	-2.5	-36.3%	73.9	20.4%
Interest on Investments	71.5	70.3	42.9	-27.4	-40.0%	45.1	5.1%
Miscellaneous ⁽⁴⁾	201.0	177.8	198.7	20.9	-1.1%	211.3	6.3%
Transfer Tax ⁽⁵⁾	0.0	47.3	47.3	0.0	n.a.	47.3	0.0%
Heritage Tax Credit ⁽⁶⁾	0.0	n.a.	-51.6	0.0	n.a.	-31.7	-38.6%
Total Current Revenues	\$9,356.1	\$9,816.9	\$9,472.7	-\$344.2	1.2%	\$10,011.6	5.7%
GAAP Transfer	119.5	0.0	0.0	0.0	n.a.	0.0	n.a.
Tax Amnesty	28.5	0.0	0.0	0.0	n.a.	0.0	n.a.
Grand Total	\$9,504.0	\$9,816.9	\$9,472.7	-\$344.2	-0.3%	\$10,011.6	5.7%

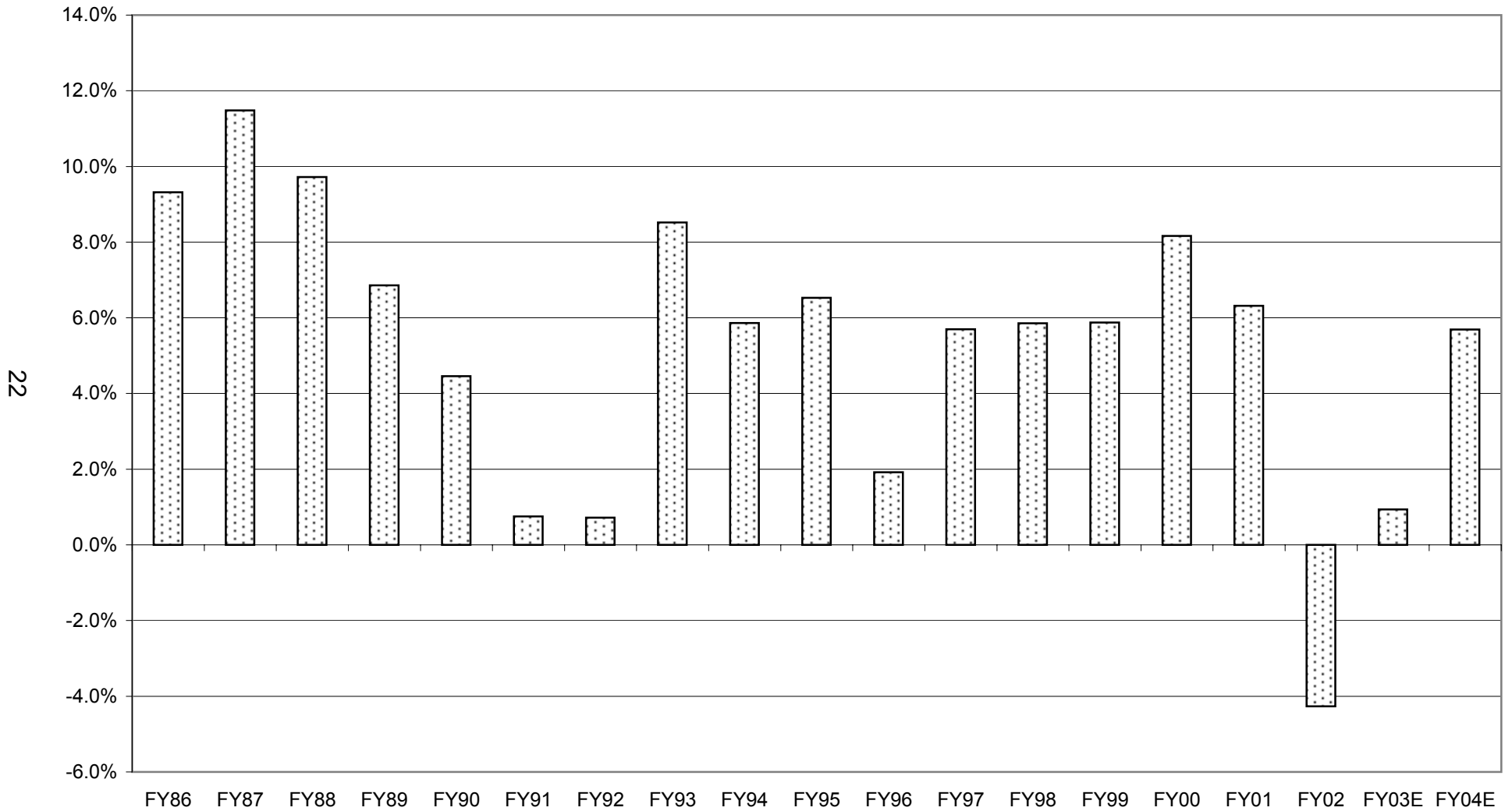
* From the Board of Revenue Estimates.

Footnotes for General Fund Revenue Projections

- (1) During the second half of fiscal 2002, 100% of the sales tax on short-term rental vehicles went to the Transportation Trust Fund (TTF). SB 323 (2002 session) changes that percentage back to 45% beginning in fiscal 2003.
- (2) SB 856 (2002 session) increased the State tobacco tax \$0.34 effective June 1, 2002. In fiscal 2003, \$80.5 million of tobacco tax revenue is placed in a special fund for local education aid. In fiscal 2004, all tobacco tax revenue will once again be in the general fund.
- (3) SB 323 (2002 session) stipulates that \$14.0 million of disproportionate share payments in fiscal 2003 be put in a special fund used for the State's mental hygiene deficit. In fiscal 2004, all disproportionate share payments will once again be in the general fund.
- (4) SB 772 (2002 session) moves workers' compensation fees to a special fund beginning in fiscal 2003. HB 135 (2002 session) moves public service company fees to a special fund beginning in fiscal 2003. SB 323 (2002 session) moves security interest filing fees, special license plate fees, and uninsured motorist penalty fees back into the general fund beginning in fiscal 2003. SB 323 also reduced the time period for property to be declared abandoned from five years to four in fiscal 2003 and from four years to three in fiscal 2004. Beginning in fiscal 2004, local reimbursements for teachers' retirement costs associated with federally funded positions move back into the general fund.
- (5) SB 323 (2002 session) stipulates that \$47.3 million of State transfer tax revenue be credited to the general fund in fiscal 2003 and 2004. Transfer tax revenue is normally credited entirely to a special fund for land preservation programs.
- (6) It is estimated that \$25 million was claimed for the heritage structure rehabilitation tax credit in fiscal 2002. This is embedded in the detail for fiscal 2002, primarily in the personal income tax and the insurance premiums tax. The amounts shown in fiscal 2003 and fiscal 2004 are the Board's estimate of additional credits likely to be claimed in those years over and above the amount in fiscal 2002. So total credits are estimated to be \$76.6 million in fiscal 2003 and \$56.7 million in fiscal 2004.

General Fund Revenues*: Fiscal 1986-2004

Year-over-Year Percent Change



* Excludes transfers (FY 1990-97 and FY 2002) & the Medicaid provider tax (FY 1991-93). FY 2003 & 2004 are from the Board of Revenue Estimates (Dec. 2002).

Part 3

General Fund Budget

Potential Fiscal 2003 General Fund Deficiencies

(\$ in Millions)

<u>Program</u>	<u>Dollars</u>
Mental Health: The deficit is attributable to:	\$36.4
<ul style="list-style-type: none"> Fiscal 2002 bills which rolled into fiscal 2003 (\$8 million); and Higher than anticipated fee-for-service expenditures (\$26 million) and an unbudgeted increase in provider rates (\$2.4 million). 	
Overestimate of Reversions: \$55 million in anticipated reversions is unrealistic given past experience and cost containment.	25.0
Foster Care: Deficit is attributable to higher than anticipated placement costs (\$10.1 million) and overestimates of federal funds (\$6 million).	16.1
Department of Human Resources: Fiscal 2003 budget makes unrealistic assumptions about federal fund attainment.	13.7
Public Safety: There are three separate components of the deficiency:	4.7
<ul style="list-style-type: none"> Increased costs of inmate medical contract (\$1.3 million). Mandated payments to the counties for inmates sentenced to a local correctional facility for more than 3 months but not more than 12 months. The aggregate per diem rate is expected to increase by 25% exceeding the increase assumed in the budget (\$2.8 million). The State is required to reimburse each county by formula for medical expenses that exceed \$25,000 for each inmate confined in a local correctional facility, regardless of whether the inmate has been sentenced (\$0.5 million). 	
Other: Salary and overtime costs at the Military Department (\$1.6 million); additional staffing for the Public Defender (\$1.5 million); and lead abatement grants for Baltimore City (\$1.0 million)	4.1
Total	\$100.0

2004 Baseline Budget Forecast Assumptions

Baseline Budget Concepts

- ! Current laws, policies, and practices are continued.
- ! Inflationary increases are recognized.
- ! Large one-time purchases and non-recurring PAYGO expenditures are removed.
- ! Anticipated deficiencies are identified.
- ! Federal mandates and multi-year commitments are observed.
- ! Legislation enacted at the prior session is funded.
- ! Non-discretionary changes in workload are recognized.
- ! Full year costs of programs started during the previous year are included.
- ! Amendments in the current year affecting ongoing expenditures are recognized.
- ! Positions and operating expenses associated with new facilities are recognized.
- ! Employee turnover is adjusted to reflect recent experience.

Caseload Assumptions

	<u>2002</u>	<u>2003</u>	<u>2004</u>	Percent Change <u>FY 03-04</u>
Pupil Enrollment *	806,944	810,502	818,293	1.0%
Medicaid	466,124	482,797	501,556	3.9%
Children's Health	101,272	116,463	125,780	8.0%
Temporary Cash Asst.	73,135	72,257	71,534	-1.0%
Foster Care/Adoption	13,596	13,965	14,350	2.8%

* Data for 2002, 2003, and 2004 reflect 9/00, 9/01, and 9/02 (est.) enrollments respectively.

2004 Baseline Budget Forecast Assumptions (Cont.)

Inflation Assumptions

- ! Employee Health Insurance (14%)
- ! Medical Contracts and Supplies (5%)
- ! Prescription Drugs for State Facilities (11%)
- ! Food (2%)

Employee Compensation

- ! Remove funds for one-time fiscal 2003 bonus.
- ! Savings from fiscal 2003 position abolitions are accounted for.
- ! Hiring freeze continues in fiscal 2004.
- ! Merit increases of 2% and 4% based on salary plan.
- ! Fully fund deferred compensation and pay for performance programs.
- ! No general salary increase for fiscal 2004.
- ! Retirement rates reflect rates approved by Board of Trustees in October.

Other Assumptions

- ! No increase in costs or reduction in funding related to Congressional re-authorization of Temporary Assistance for Needy Families (TANF) funding is assumed.
- ! Sufficient Cigarette Restitution Funds exist to maintain programs at fiscal 2003 funding levels.

State Expenditures -- General Funds
(\$ in Millions)

<u>Category</u>	<u>Work. App.</u> <u>FY 2002</u>	<u>Leg. Appr.</u> <u>FY 2003</u>	<u>Baseline</u> <u>FY 2004</u>	<u>\$ Diff.</u> <u>03 to 04</u>	<u>% Diff.</u> <u>03 to 04</u>
Debt Service	\$204.0	\$183.9	\$199.0	\$15.1	8.2%
Aid to Local Governments					
General Government	200.9	228.9	212.2	-16.7	-7.3%
Community Colleges	178.5	188.9	198.1	9.1	4.8%
Education/Libraries	2,847.3	3,036.3	3,392.6	356.3	11.7%
Health	56.9	61.9	63.1	1.2	1.9%
	3,283.7	3,516.1	3,865.9	349.9	10.0%
Entitlements					
Foster Care Payments	137.8	132.9	168.8	35.9	27.0%
Assistance Payments	55.5	62.7	62.7	0.0	0.0%
Medical Assistance	1,547.0	1,600.4	1,791.1	190.7	11.9%
Property Tax Credits	55.7	55.5	54.1	-1.3	-2.4%
	1,795.9	1,851.5	2,076.8	225.3	12.2%
State Agencies					
Health	1,090.0	1,175.3	1,253.4	78.0	6.6%
Human Resources	289.4	279.6	310.8	31.2	11.2%
Systems Reform Initiative	43.1	40.1	40.5	0.4	1.0%
Juvenile Justice	162.2	170.9	179.7	8.8	5.2%
Public Safety/Police	920.8	941.8	985.5	43.7	4.6%
Higher Education	961.3	967.3	1,004.0	36.7	3.8%
Other Education	275.5	283.3	307.8	24.5	8.7%
Agric./Nat'l Res./Environment	147.3	150.5	153.6	3.1	2.1%
Other Executive Agencies	553.2	499.4	499.0	-0.4	-0.1%
Judicial/Legislative	316.5	329.4	337.5	8.0	2.4%
	4,759.3	4,837.7	5,071.9	234.1	4.8%
Continue Hiring Freeze			-40.0	-40.0	n.a.
Deficiencies		100.0	0.0	-100.0	-100.0%
Subtotal	\$10,042.8	\$10,489.1	\$11,173.5	\$684.3	6.5%
Capital	366.4	49.6	47.4	-2.2	-4.4%
Reserve Fund	176.8	181.0	0.0	-181.0	-100.0%
Appropriations	\$10,586.0	\$10,719.7	\$11,220.9	\$501.1	4.7%
Reversions	-25.0	-55.0	-25.0	30.0	-54.5%
Grand Total	\$10,561.0	\$10,664.7	\$11,195.9	\$531.1	5.0%

Note: The FY 2002 working appropriation reflects deficiency appropriations, legislative reductions to the deficiencies (\$0.9 million), and \$342.5 million in withdrawn appropriations.

Components of Budget Change

(\$ in Millions)

Summary of Budget Change	<u>Dollars</u>	<u>Share of Growth</u>
Ongoing Requirements/Entitlements	\$494.1	63%
Legislation	176.1	22%
Commitments	25.1	3%
State Agency Costs	<u>89.0</u>	<u>11%</u>
Subtotal Operating Budget	\$784.4	100%
PAYGO	-2.2	
Appropriation to Reserve Fund	-181.0	
Total Baseline Increase in State Expenditures	\$601.2	
Less Deficiency Appropriations	<u>-100.0</u>	
Total	\$501.2	

Detail on Components

(\$ in Millions)

Ongoing Requirements/Entitlements		\$494.1
Education and Libraries Formula	\$204.4	
Medical Assistance -- enrollment, inflation, MCO rates	176.7	
Mental Hygiene -- inflation, utilization, and underfunding in fiscal 2003	40.2	
Foster Care -- cost per case and lower federal fund attainment	35.9	
Debt Service	15.1	
Federal Children's Health Insurance Program Block Grant exhausted	13.0	
Higher Education (St. Mary College, Community Colleges, BCCC, Sellinger)	11.9	
Private Donation Incentive Grants -- fully fund commitments	11.6	
Formula aid to local governments for police protection and health	2.6	
Maryland School for the Deaf	1.7	
Mandated appropriation for Women, Infants, and Children Program/Other	0.9	
Homeowner's and Renters' Tax Credit Programs	-1.3	
Disparity Grant for low wealth counties	-18.5	
Legislation		176.1
Education Aid -- Chapter 288, Acts of 2002	147.4	
Wage initiative for providers serving developmentally disabled -- Chapter 722, Acts of 2001	11.2	
Substance Abuse Treatment Outcomes Partnership (STOP) -- Chapter 675, Acts of 2000	4.8	
Expand teacher scholarship program to part-time undergraduates -- Chapter 410, Acts of 2002	3.0	
Funding of circuit court law clerks -- Chapter 677, Acts of 2001	2.9	
Other legislation smaller than \$2 million each	6.9	

Detail on Components (Cont.)

(\$ in Millions)

Commitments		\$25.1
Annualize fiscal 2003 cost of developmental disabilities waiting list initiative	\$5.2	
Annualization of Maryland Community Choice Program --		
Medicaid Waiver for the Disabled	3.8	
First year of lease payments for wiring schools for technology project	3.3	
Per diem reimbursements for inmates in local facilities	3.3	
New facilities/facility expansions (African American Museum, Hargrove Court House, etc.)	3.2	
Higher Education -- funding for Office of Civil Rights agreement restored to \$6 million	2.6	
Increase scholarship fund by 4 percent to keep pace with tuition	2.4	
Other commitments smaller than \$1 million each	1.3	
State Agency Costs		89.0
Employee health insurance	37.0	
University System of Maryland and Morgan State University -- State share of ongoing expenses	33.4	
Employee increments	28.5	
Statewide turnover rate declines due to weak economy	26.0	
Programs funded with fund balance in FY 03 and general funds in FY 04	14.7	
Fund shifts from special to federal funds (DHR, Maryland Primary Care, Charlotte Hall, etc.)	14.7	
Underattainment of federal funds at DHR and MEMA	14.3	
Fund pay-for-performance bonus and restore match for deferred compensation to \$600	8.7	
Positions created by Board of Public Works during fiscal 2003	5.8	
Insurance charges rise due to State's claims experience	4.1	
Cost associated with juvenile justice caseload increases	3.9	
Public Safety (medical contract, food service, etc.)	3.3	
43 additional staff for Public Defender to handle workload	2.8	
Other changes	-10.2	
Reduction in Workers' Compensation charges due to elimination of deficit in operating account	-22.4	
Remove funds for one-time employee bonus	-23.8	
Annualized savings from Section 37 of the Budget Bill -- abolition of almost 3,500 vacant positions	-51.8	
PAYGO		-2.2
State Reserve Fund		-181.0

Substitution of General Funds for Special Funds Contributes to Increases in Education and Medicaid

(\$ in Millions)

Education and Libraries Funding

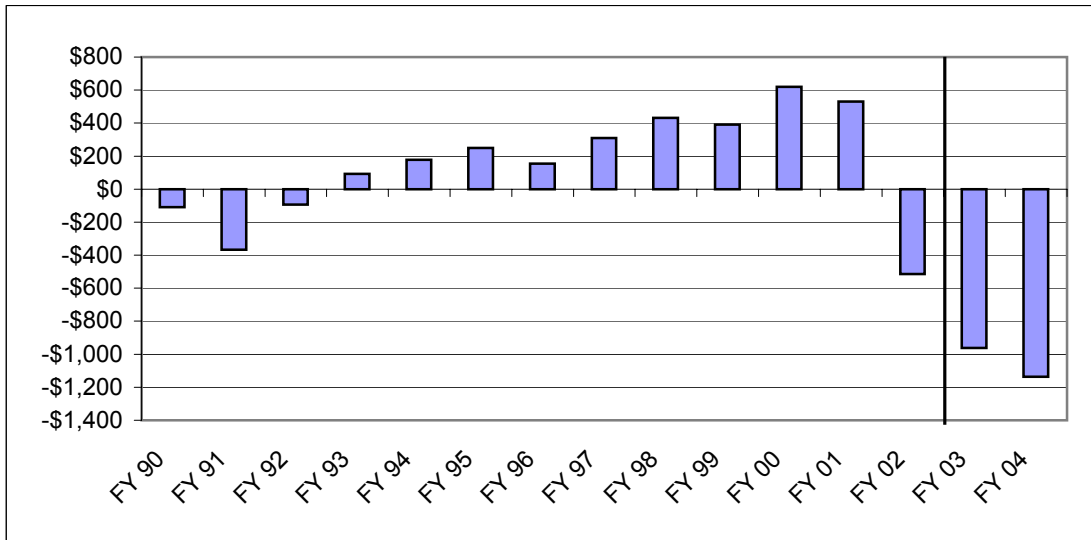
	<u>FY 2003</u>	<u>FY 2004</u>	<u>Difference</u>	<u>% Diff</u>
General Funds	\$3,036.3	\$3,392.6	\$356.3	11.7%
Special Funds from Tobacco Tax	80.5	0.0	-80.5	-100.0%
Special Funds from Transitional Education Fund	33.3	0.0	-33.3	-100.0%
Cigarette Restitution Funds	10.1	7.6	-2.5	-24.8%
Other Special Funds	0.4	0.2	-0.2	-51.6%
Total	\$3,160.6	\$3,400.4	\$239.8	7.6%

Medical Assistance Funding

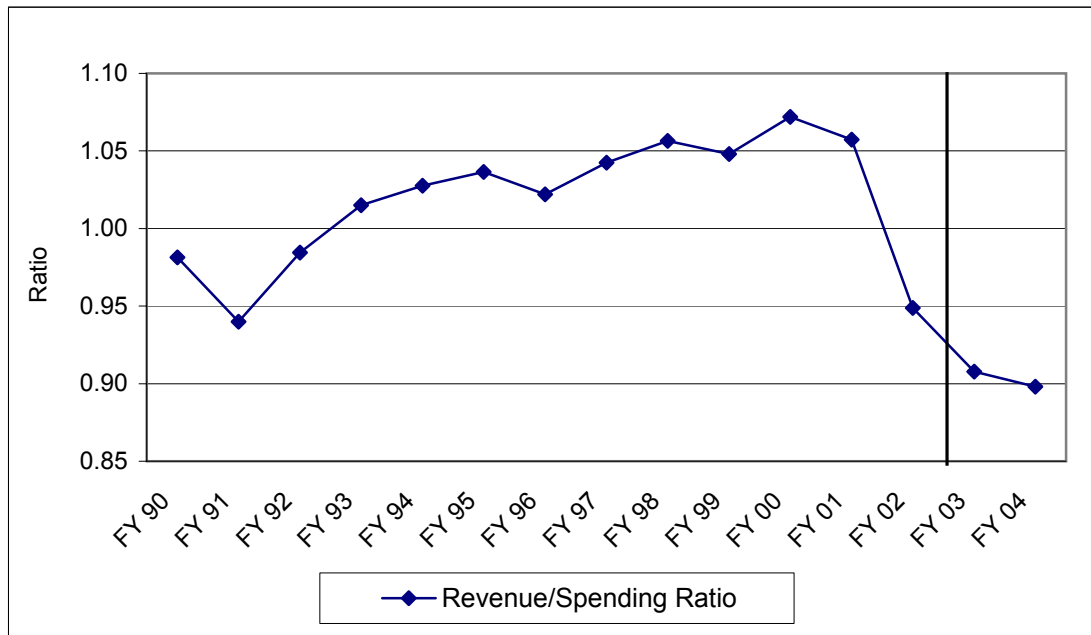
	<u>FY 2003</u>	<u>FY 2004</u>	<u>Difference</u>	<u>% Diff</u>
General Funds	\$1,600.4	\$1,791.1	\$190.7	11.9%
Cigarette Restitution Funds	104.0	40.9	-63.1	-60.7%
Other Special Funds	16.5	16.4	-0.1	-0.6%
Total State Support	\$1,720.9	\$1,848.4	\$127.5	7.4%

Ongoing Expenses Projected to Exceed Operating Revenues

(\$ in Millions)



Ongoing Revenue Per Dollar of Operating Spending



Part 4

General Fund Forecast

Executive Summary

General Fund: Recent History and Outlook

Fiscal 2001 to 2004

(\$ in Millions)

	Actual		Forecast	
	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>
Funds Available				
Current Revenues	\$9,810	\$9,504	\$9,432	\$10,029
Beginning Fund Balance	936	538	309	-
Transfers to General Fund	30	814	334	-
Subtotal Funds Available	10,776	10,857	10,075	10,029
Appropriations, Deficiencies and Cost Containment				
Operating Costs	9,281	10,004	10,434	11,149
Capital	640	366	50	47
Appropriations to Reserve Fund	316	177	181	-
Subtotal Spending	10,238	10,548	10,665	11,196
Closing Balance /Projected Shortfall	\$538	\$309	(\$590)	(\$1,167)

Reserve Fund Activity				
Appropriations to Reserve Fund	\$316	\$177	\$181	-
Transfers to General Fund	30	533	249	-
Net Change	286	(356)	(68)	-
Estimated Rainy Day Fund Balance -- June 30	888	548	494	507

General Fund Projections

(\$ in Millions)

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	Annual Growth Rate <u>FY03-04</u>	Avg. Annual Growth Rate <u>FY04-08</u>
Revenues								
Individual Income	\$4,807	\$5,082	\$5,394	\$5,696	\$5,999	\$6,319	5.7%	5.6%
Sales and Use	2,730	2,851	2,999	3,150	3,298	3,452	4.4%	4.9%
Lottery	432	448	457	467	476	485	3.8%	2.0%
Other	1,503	1,631	1,606	1,697	1,735	1,774	8.5%	2.1%
Subtotal	\$9,473	\$10,012	\$10,457	\$11,009	\$11,508	\$12,030	5.7%	4.7%
Adjustments:								
Balance	\$309	\$0	\$0	\$0	\$0	\$0		
Transfer - Rainy Day Fund	249	0	0	0	0	0		
Transfer - Other Funds	85	0	0	0	0	0		
	\$10,116	\$10,012	\$10,457	\$11,009	\$11,508	\$12,030	-1.0%	4.7%
Expenditures								
Debt Service	\$184	\$199	\$253	\$297	\$322	\$338	8.2%	14.2%
Local Aid - Education/Libraries	3,036	3,393	3,753	4,130	4,534	4,997	11.7%	10.2%
Local Aid - Other	480	473	487	512	532	552	-1.3%	3.9%
Entitlements (includes deficiencies)	1,881	2,077	2,218	2,365	2,523	2,692	10.4%	6.7%
State Operations (includes deficiencies)	4,883	5,032	5,274	5,472	5,718	5,936	3.0%	4.2%
Reversions	-30	-25	-25	-25	-25	-25	-16.9%	0.0%
Subtotal	\$10,434	\$11,148	\$11,960	\$12,751	\$13,603	\$14,489	6.8%	6.8%
Capital	\$50	\$47	\$129	\$116	\$110	\$94	-4.4%	18.7%
Transfers	0	0	0	0	0	0	n.a.	n.a.
Reserve Fund	181	0	6	15	15	17	-100.0%	n.a.
Total Expenditures	\$10,665	\$11,196	\$12,095	\$12,882	\$13,729	\$14,601	5.0%	6.9%
Surplus (Shortfall)	-\$549	-\$1,184	-\$1,638	-\$1,873	-\$2,221	-\$2,571		
Annual Change		-636	-454	-235	-348	-350		
Revenue Stabilization Fund								
Ending Balance	\$494	\$507	\$526	\$554	\$584	\$615		
As a Percent of Revenues	5.2%	5.1%	5.0%	5.0%	5.1%	5.1%		
Ratio of Operating Revenues to Expenditures	0.91	0.90	0.87	0.86	0.85	0.83		

Part 5

Cigarette Restitution Fund

Securitization of Tobacco Settlement

- To securitize means to issue bonds backed by the tobacco settlement payments.
- Several states created special entities to securitize a portion of their future payments in exchange for an up-front lump sum payment. The proceeds have been used:
 - to fund special endowments;
 - to fund one-time expenditures; and
 - as a temporary supplemental funding source for ongoing operating expenses.

Issues Surrounding Securitization

- Higher Costs
 - Issuance costs and interest rates higher than GO.
- Uncertain Revenue Stream
 - Payments fluctuate and may be insufficient for debt service.
- View of Rating Agencies
 - Debt not counted but considered an indicator of financial management.
- Determining a Minimum Rate of Return
 - Weighing future payments against current needs.
- Use of Proceeds
 - Short-term fixes or long-term benefits.

Comparison of Debt Vehicles

Yields Net Proceeds of \$355 Million

(\$ in Millions)

	Tobacco Settlement <u>Bonds</u>	General Obligation <u>Bonds</u>
<u>Issuance Components</u>		
Par Amount	\$423.8	\$355.2
Discount	(10.1)	*
Debt Service Reserve Fund	(41.2)	n/a
Capitalized Interest	(12.2)	n/a
Issuance Expenses	(5.0)	(0.2)
Total Issuance Costs	(\$68.5)	(\$0.2)
<u>Repayment Components</u>		
Interest Rate	6.7%	4.0%
Last Expected Payment	14 years	15 years
Average Annual Payment	\$45.3	\$32.7
Total Repayment Costs	\$702.1	\$490.9
Interest	\$278.3	\$135.7
Principal	\$423.8	\$355.2

* The State has received \$46.9 million in premiums from the last two bond sales.

Cigarette Restitution Funds
Fiscal 2004 Baseline Estimates
(\$ in Millions)

	FY 2002 Actual Spending	FY 2003 Working Appropriation	FY 2004 Baseline Appropriation
Beginning Fund Balance ¹	\$16.0	\$103.8	\$24.5
Settlement Payments	164.2	172.2	151.8
Less 25% in Escrow	(43.4)		
Subtotal	\$136.8	\$276.0	\$176.3
Available from Escrow	\$127.8		
Payment to Law Offices	(30.0)	(30.0)	(30.0)
To Special Reserve Fund	(13.1)		
From Special Reserve Fund			13.1
Total Available Revenue	\$221.5	\$246.0	\$159.4
Health			
Tobacco	\$16.9	\$31.4	\$31.4
Cancer	34.6	46.5	46.5
Substance Abuse ²	18.5	18.5	18.5
MD Health Care Foundation	1.0	1.0	1.0
Medicaid	0.0	104.0	39.9
Subtotal	\$71.0	\$201.4	\$137.3
Education			
Academic Intervention	\$19.1	\$0.0	\$0.0
Baltimore City Partnership	3.2	0.0	0.0
Aid to Non Public Schools	4.9	3.6	3.8
Judy Hoyer Centers	2.9	4.0	4.0
School Wiring	0.0	1.9	1.9
Teacher Mentoring	2.5	2.5	0.0
Teacher Certification	2.0	1.5	0.0
Technology Academy	1.7	1.7	1.7
Readiness and Accreditation	3.0	0.0	0.0
Access/Success	1.0	1.0	1.0
Subtotal	\$40.3	\$16.2	\$12.4
Crop Conversion	\$6.3	\$6.3	\$6.3
Attorney General	\$0.1	\$0.1	\$0.1
Total Expenses	\$117.7	\$224.0	\$156.1
Transfer to the general fund		(\$2.5)	
Anticipated reversion ³		\$5.0	
Ending Fund Balance	\$103.8	\$24.5	\$3.3

¹ The fiscal 2002 beginning fund balance includes fiscal 2001 funds not reverted until the close of fiscal 2002.

² \$16.9 million was expended by the Alcohol and Drug Abuse Administration (ADAA) in fiscal 2002. Funds unexpended by ADAA were transferred to the Mental Hygiene Administration at close out.

³ DLS anticipates a minimum reversion of \$5 million based on the amount of prior reversions and CRF budget growth in fiscal 2003.

Estimated Cigarette Restitution Fund Receipts and Expenditures Fiscal 2004-2008

(\$ in Millions)

	FY 2004 Baseline	FY 2005 Estimate	FY 2006 Estimate	FY 2007 Estimate	FY 2008 Estimate
Beginning Fund Balance	\$24.5	\$3.3	\$0.0	\$0.0	\$9.7
Settlement Payments ¹	151.8	156.5	155.9	157.4	188.9
Subtotal	\$176.3	\$159.8	\$155.9	\$157.4	\$198.6
Payment to Law Offices	(30.0)	(30.0)	(30.0)		
From Special Reserve Fund ²	13.1				
Total Available Revenue	\$159.4	\$129.8	\$125.9	\$157.4	\$198.6
Health					
Tobacco	\$31.4	\$31.4	\$31.4	\$31.4	\$31.4
Cancer	46.5	46.5	46.5	46.5	46.5
Substance Abuse	18.5	18.5	18.5	18.5	18.5
MD Health Care Foundation	1.0	1.0	1.0	1.0	1.0
Medicaid ³	39.9	32.5	31.5	31.5	31.5
Subtotal	\$137.3	\$129.9	\$128.9	\$128.9	\$128.9
Education	\$12.4	\$12.4	\$12.4	\$12.4	\$12.4
Crop Conversion	\$6.3	\$6.3	\$6.3	\$6.3	\$6.3
Attorney General	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Total Spending	\$156.1	\$148.7	\$147.7	\$147.7	\$147.7
Ending Fund Balance	\$3.3	(\$18.9)	(\$21.8)	\$9.7	\$50.9

¹ Settlement payments increase in fiscal 2008 with the beginning of Strategic Contribution Payments from the participating tobacco manufacturers. These payments, estimated at \$28 million annually, continue through fiscal 2017.

² Fiscal 2002 escrow funds in excess of the amount required for the State's first settlement payment to the Law Offices was placed in a Special Reserve Fund for use in future fiscal years. The \$13 million in reserves is available for use in fiscal 2004.

³ 25% of Cigarette Restitution Funds are required to be appropriated to Medicaid through fiscal 2006. This level of funding is assumed to continue after the legal obligation has expired.

Part 6

Local Government Assistance

State Aid to Local Governments

- State aid to local governments accounts for about 25% of total State expenditures (general and special funds) and 35% of State general fund expenditures.
- Total State aid is projected at \$4.4 billion in fiscal 2004, representing a \$268.9 million or 6.5% increase over the prior fiscal year.
- Direct aid to county and municipal governments, school boards, library boards, community colleges, and local health departments is projected to increase by \$238.3 million or 6.4%.
- Retirement payments will increase by \$30.6 million or 8.1%.
- Since fiscal 1990, total State aid has increased at an average annual rate of 4.9%, and direct aid has increased at an average annual rate of 5.4%.

Summary of State Aid to Local Governments General and Special Funds (\$ in Millions)

<u>Fiscal Year</u>	<u>Direct State Aid</u>	<u>Retirement Payments</u>	<u>Total State Aid</u>	<u>Percent Change</u>
1990	\$1,903.0	\$333.1	\$2,236.1	
1991	1,956.2	358.5	2,314.7	3.5%
1992	1,840.8	350.9	2,191.6	-5.3%
1993	2,012.3	387.4	2,399.7	9.5%
1994	2,085.3	383.8	2,469.1	2.9%
1995	2,217.0	423.1	2,640.1	6.9%
1996	2,327.3	455.6	2,782.9	5.4%
1997	2,441.4	479.7	2,921.2	5.0%
1998	2,659.6	474.8	3,134.5	7.3%
1999	2,909.9	442.5	3,352.3	7.0%
2000	3,029.7	420.5	3,450.3	2.9%
2001	3,273.7	389.8	3,663.5	6.2%
2002	3,502.9	349.9	3,852.8	5.2%
2003	3,743.5	377.7	4,121.1	7.0%
2004	3,981.8	408.3	4,390.1	6.5%

Significant Increase in State Education Funding

- Funding for public schools accounts for most of the increase in State aid (88%). Public schools are projected to receive an additional \$208.2 million in direct aid in fiscal 2004 and \$29 million in teachers' retirement payments.
- The State's financing of public schools changed considerably in fiscal 2004 due to the enactment of Chapter 288 of 2002, the Bridge to Excellence in Public Schools Act. The legislation phases out or eliminates 27 education aid programs from fiscal 2004 to 2008 in order to simplify the structure, while significantly increasing overall State financial support for public schools.

Smaller Increases in Other Aid Programs

- The community college aid formula increases by \$3.2 million or 2.0% in fiscal 2004. Due to budget constraints, the Budget Reconciliation and Financing Act of 2002 (Chapter 440) reduced the per pupil community college formula funding from 25% to 23.1% of per pupil funding at four-year institutions for both fiscal 2003 and 2004. The percentage increases to 24% in fiscal 2005 and 25% in fiscal 2006.
- Local libraries will receive an additional \$1.7 million, which reflects enhancements to both the formula aid and funding for the State library network.
- Local health departments are projected to receive an additional \$1.2 million. Unlike prior years, local health departments will not receive funding for salary adjustments in fiscal 2004.
- Program Open Space funding is projected to increase by \$14.6 million. Approximately one-half of the increase is due to an estimated increase in transfer tax revenues in fiscal 2004 and the other half is due to the revenue attainment adjustment in fiscal 2002.
- The disparity grant program will decrease by \$18.5 million or 16.1%. This reduction is due to the narrowing of the disparity in income tax receipts between less affluent counties and other counties in Maryland.

State Aid By Governmental Entity
Fiscal 2003-2004
(\$ in Millions)

	<u>FY 2003</u>	<u>FY 2004</u>	<u>Difference</u>	<u>Percent Change</u>
County/Municipal Aid				
Highway User Revenues	\$432.1	\$454.8	\$22.7	5.3
Disparity Grants	115.2	96.7	-18.5	-16.1
Police Aid	62.1	63.5	1.4	2.2
Program Open Space	18.3	32.9	14.6	79.9
Utility Restructuring Grant	30.6	30.6	0.0	0.0
Other Programs	<u>48.6</u>	<u>48.7</u>	<u>0.1</u>	<u>0.1</u>
Subtotal Direct Aid	706.9	727.2	20.3	2.9
Retirement -- Certain County Employees	<u>1.4</u>	<u>1.4</u>	<u>0.1</u>	<u>5.0</u>
Total County/Municipal Aid	708.3	728.6	20.3	2.9
Local Health	61.9	63.1	1.2	1.9
Public Schools				
Foundation Program	1,764.2	2,009.2	245.0	13.9
Compensatory Aid	141.9	347.5	205.5	144.8
Student Transportation	138.9	166.7	27.8	20.0
Special Education -- Formula	81.3	115.1	33.9	41.7
Special Education -- Nonpublic	100.2	110.2	10.0	10.0
Limited English Proficiency Grants	34.2	38.4	4.2	12.4
Teacher Salary Challenge Program	72.3	35.9	-36.4	-50.4
Baltimore City Partnership Grant	70.5	28.2	-42.3	-60.0
School Technology/Modernization	18.1	20.4	2.3	12.8
Other Ongoing Programs	97.2	95.8	-1.3	-1.4
Discontinued Programs	<u>240.5</u>	<u>0.0</u>	<u>-240.5</u>	<u>-100</u>
Subtotal Direct Aid	2,759.2	2,967.4	208.2	7.5
Teachers' Retirement	<u>354.5</u>	<u>383.6</u>	<u>29.0</u>	<u>8.2</u>
Total Public School Aid	3,113.7	3,351.0	237.2	7.6
Community Colleges				
Formula Program	158.8	162.0	3.2	2.0
Other	<u>17.0</u>	<u>20.8</u>	<u>3.9</u>	<u>22.8</u>
Subtotal Direct Aid	175.8	182.8	7.0	4.0
Faculty Retirement	<u>14.0</u>	<u>15.2</u>	<u>1.3</u>	<u>9.0</u>
Total Community College Aid	189.8	198.1	8.3	4.4
Libraries				
Formula Program	27.1	27.4	0.3	1.1
State Library Network	<u>12.6</u>	<u>13.9</u>	<u>1.4</u>	<u>11.0</u>
Subtotal Direct Aid	39.6	41.3	1.7	4.3
Librarians' Retirement	<u>7.8</u>	<u>8.0</u>	<u>0.2</u>	<u>3.0</u>
Total Library Aid	47.4	49.3	1.9	4.0
Total State Aid	\$4,121.1	\$4,390.1	\$268.9	6.5

Part 7

Capital Outlook

Capital Debt Affordability Committee Recommendation

- **Preliminary**

\$740 million in new GO debt, which includes another \$200 million and \$40 million in academic facilities debt.

53

GO Debt

\$535 million planned for fiscal 2004.

\$200 million recognizes legislative action and the national recession.

\$5 million for tobacco buyout.

- **Final**

To occur following the official December revenue estimates.

Affordability Outlook

- Criteria
 - Tax supported debt outstanding should not exceed 3.2% of Maryland personal income.
 - Debt service on tax supported debt should not exceed 8% of revenues.
- DLS analysis indicates limits not exceeded.

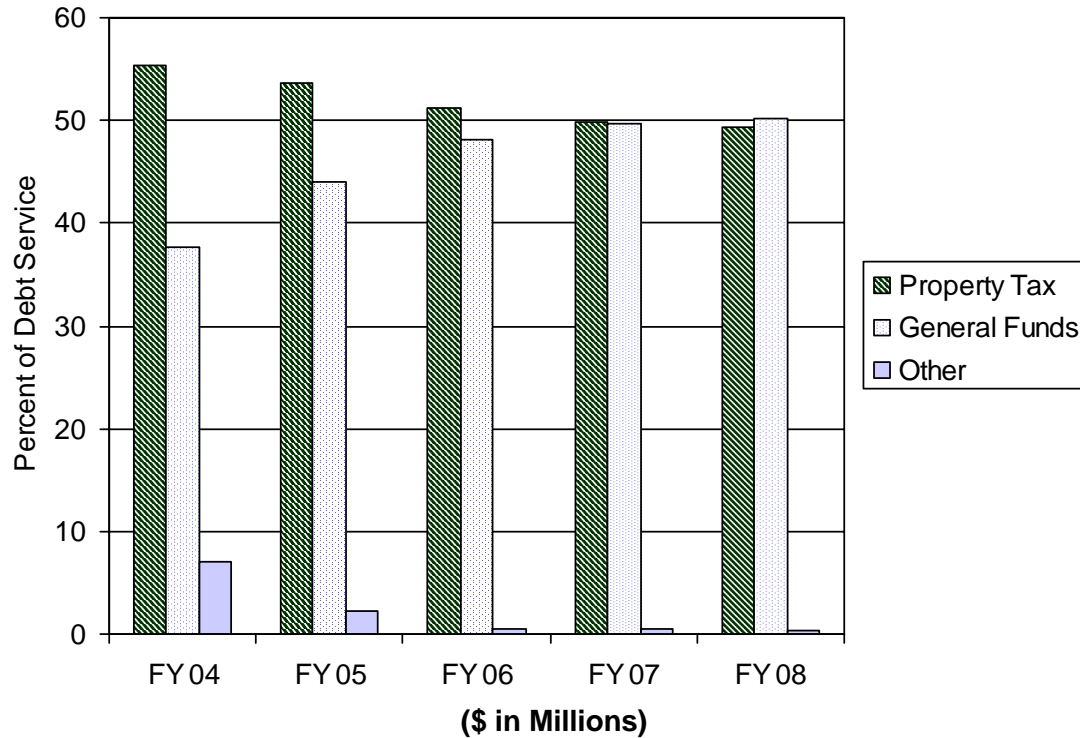
	Debt Outstanding As % of Personal Income	Debt Service As % of Revenues
FY 2004	2.81%	6.49%
FY 2005	2.82%	6.80%
FY 2006	2.77%	6.66%
FY 2007	2.68%	6.53%
FY 2008	2.61%	6.47%

Annuity Bond Fund

GO Debt Service is paid through the Annuity Bond Fund. The fund's revenues are:

- **Property Tax**
 - Statutorily dedicated to debt service.
 - Rate set by Board of Public Works.
 - Rate unchanged since 1982 (8.4 cents/\$100 value).
- **General Funds**
 - Appropriated to make up difference between debt service costs and other fund sources.
- **Other Special Funds**
 - Monies collected from bond premiums, interest on bonds sold, and other miscellaneous receipts.

Projected Annuity Bond Fund



	Debt Service	Property Tax	General Funds	Other
FY 2004	\$531.8	\$294.2	\$199.8	\$37.7
FY 2005	\$573.9	\$307.9	\$252.7	\$13.3
FY 2006	\$615.3	\$315.6	\$296.7	\$3.0
FY 2007	\$648.4	\$323.5	\$321.8	\$3.0
FY 2008	\$672.5	\$331.6	\$337.9	\$3.0

Filling the Gap

- If property tax rate remains constant, more general funds must be budgeted to meet the increasing debt service requirements.

	General Funds for Debt Service As % of Total General Funds
FY 2004	2.0%
FY 2005	2.4%
FY 2006	2.7%
FY 2007	2.8%
FY 2008	2.8%

- Use of more general funds for debt service requirements diverts it from other purposes.

Debt Issued by State Agencies and Independent Authorities

- Certain State agencies and independent authorities can issue debt as authorized through statute. They are:
 - Maryland Environmental Service
 - Maryland Food Center Authority
 - Maryland Transportation Authority (MdTA)
 - Maryland Water Quality Financing Administration
 - Maryland Department of Housing and Community Development
 - Maryland Energy Financing Administration
 - Maryland Industrial Development Financing Authority (MIDFA)
 - Maryland Economic Development Corporation (MEDCO)
 - Maryland Health and Higher Educational Facilities Authority (MHHEFA)
 - Maryland Department of Transportation (Certificates of Participation)
- The debt issued is backed by pledged revenues (fees, special taxes, loan repayments) and is not counted as State tax-supported debt.
- The issued debt provides for the financing of capital facilities or loan financing or refinancing.
- Some of the agencies have annual debt limits set in law.
- All must report transactions of \$25 million or more.

Debt Burden of Agency Issued Debt

- Since fiscal 1990, debt issued by agencies and authorities has more than doubled -- \$3.9 billion to \$9.5 billion in fiscal 2002. Comparatively, GO debt grew from \$2 billion to \$3.5 billion during that period.
- The period of greatest growth is between fiscal 1998 and 2002.

(\$ in Millions)

Agency	FY 1998	FY 2002	Diff.	% Increase
MD Environmental Service	31.0	36.5	5.5	17.7
MD Food Center Authority	7.0	0.0	(7.0)	--
MD Transportation Authority	374.9	668.8	293.8	78.4
MD Water Quality Financing Administration	151.3	115.9	(35.4)	--
MD Dept. of Housing and Comm. Development	2,453.2	2,797.4	344.2	14.0
MD Energy Financing Administration	306.2	0.0	(306.2)	--
MD Industrial Development Financing Authority	326.4	547.4	221.0	67.7
MD Dept. of Transportation Certificates of Participation	0.0	65.2	65.2	--
MD Economic Development Corporation	227.7	967.6	739.9	325.0
MD Health and Higher Education Facilities Authority	2,821.0	4,265.4	1,444.5	51.2
Total	6,698.8	9,464.4	2,765.5	41.3

- MEDCO and MHHEFA account for most of the aggregate growth between fiscal 1998 and 2002 while MdTA and MIDFA reflect a significant single-year activity in 2002.

Potential Impact from Growth Signals Need for Review

- Increased risk of market saturation of Maryland-related bonds.
- Increased upward pressure placed on pledged revenues to maintain adequate coverage ratios for debt service.

60

Recommendation: Establish a measure of control over the largely unchecked growth in the debt burden of State agencies and authorities.

- Expand the Capital Debt Affordability Committee's review to include the size and condition of debt issued by State agencies and authorities.

Part 8

Transportation Trust Fund

Transportation Trust Fund
Fiscal 2002 Revenues Allow for Lower Debt, Higher Fund Balance, and
Increased Grants to Local Jurisdictions

(\$ in Millions)

	<u>Projected FY 2002</u>	<u>Actual FY 2002</u>	<u>Variance</u>
Fund Balance			
Starting Fund Balance	\$128	\$128	\$0
Ending Fund Balance	<u>114</u>	<u>174</u>	<u>60</u>
Change in Fund Balance	(\$13)	\$47	\$60
Sources of Funds			
Gross Tax and Fee Revenue Summary			
Motor Fuel Taxes	\$687	\$704	\$17
Rental Car Sales Tax	31	35	4
Titling Taxes	594	650	56
Corporate Income Tax	76	85	9
Registrations	185	185	0
Misc. Motor Vehicle Fees	<u>132</u>	<u>141</u>	<u>9</u>
Subtotal	\$1,705	\$1,801	\$95
Other Receipts and Adjustments			
Operating Revenues	\$298	\$297	(\$1)
MdTA Fund Transfers	10	10	0
Misc. Revenues	52	84	32
Change in Revenue Sources	<u>(16)</u>	<u>0</u>	<u>16</u>
Subtotal	\$344	\$391	\$47
Total Gross Revenues and Adjustments	\$2,049	\$2,192	\$142
Bond Sale Proceeds	210	150	(60)
Total Funds by Source	\$2,259	\$2,342	\$82
Uses of Funds			
Highway User Revenues to Local Jurisdictions	\$418	\$440	\$22
Deductions to Other Agencies	52	52	1
To TTF as MDOT Expenditures	1,803	1,802	(0)
To TTF as Increased Fund Balance	<u>(13)</u>	<u>47</u>	<u>60</u>
Total Funds by Use	\$2,259	\$2,342	\$82

Transportation Trust Fund Outlook Better Than General Fund Outlook

(\$ in Millions)

	<u>Actual FY 2002</u>	<u>Estimate FY 2003</u>	<u>Estimate FY 2004</u>	<u>Estimate FY 2005</u>	<u>Estimate FY 2006</u>	<u>Estimate FY 2007</u>	<u>Estimate FY 2008</u>	<u>Estimate FY 03-08</u>
Starting Fund Balance	\$128	\$174	\$100	\$100	\$100	\$100	\$100	\$174
Closing Fund Balance	174	100	100	100	100	100	100	100
Net Revenues								
Taxes and Fees	1,308	1,305	1,346	1,376	1,408	1,449	1,475	8,360
Operating/Misc.	431	396	355	361	365	371	377	2,226
MdTA Transfer	10	43	43	43	43	43	0	215
Net Revenues Subtotal	1,749	1,744	1,744	1,781	1,816	1,863	1,852	10,800
Bonds	150	295	380	305	170	65	110	1,325
Total Revenues	1,899	2,039	2,124	2,086	1,986	1,928	1,962	12,125
Debt								
Debt Coverage Ratio -- Net Income	4.6	4.4	3.5	3.0	3.2	3.0	2.7	
Debt Outstanding	714	915	1,193	1,384	1,465	1,463	1,500	
Local Highway User Grants	440	446	460	473	483	496	505	2,863
Expenditures								
Debt Service	113	135	153	178	160	144	146	916
Operating	1,040	1,091	1,140	1,209	1,253	1,299	1,349	7,342
Subtotal	1,153	1,226	1,293	1,387	1,413	1,443	1,495	8,257
Capital Summary								
State Capital in Draft CTP	700	889	831	700	575	493	516	4,004
Federal Capital in Draft CTP	686	694	654	632	535	465	426	3,406
Total Capital in Draft CTP	1,386	1,583	1,485	1,332	1,110	958	942	7,410
Additional (Reduced) Capital Program Based on DLS Forecast	0	(1)	0	(2)	(2)	(9)	(49)	(63)
Total State Special Fund Expenditures	1,853	2,114	2,124	2,085	1,986	1,927	1,962	12,198

Part 9

Refundable Earned Income Credit

Refundable Earned Income Credit

- The State earned income credit (EIC) was originally enacted in 1987 as a nonrefundable credit against the State income tax in an amount equal to 50% of the federal EIC. In 1998 the State EIC was made partially refundable, for individuals having one or more dependents, based on the amount by which a specified percentage of the federal EIC exceeds the State income tax. The refundable State EIC was based on 10% of the federal EIC for tax years 1998 and 1999 and 15% for 2000.
 - Chapter 581 of 2001 increased the percentage of the federal EIC on which the refundable State EIC is based, from 15% to 16% for tax years 2001 and 2002, to 18% for tax year 2003, and to 20% for tax years 2004 and beyond. Section 2 of Chapter 581 requires the Spending Affordability Committee to include in its final report this year a recommendation as to the fiscal prudence of accelerating the scheduled increase of the refundable EIC.
 - Acceleration of the scheduled increase in the refundable State EIC would mean that for tax year 2003 the percentage of the federal EIC on which the refundable State EIC is based, currently scheduled to be 18%, would instead be increased to 20%. This acceleration would reduce State income tax revenues for fiscal 2004 by an estimated \$10.6 million. Future fiscal years would not be affected, because by tax year 2004 the phase-in under current law will be complete.
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(\$ in Millions)

<u>Tax Year</u>	<u>Fiscal Year</u>	<u>Current Law EIC Percentage</u>	<u>Estimated Total Cost</u>	<u>Accelerated Increase of EIC Percentage</u>	<u>Estimated Cost</u>	<u>Change from Current Law</u>
2001*	2002	16%	45.6	16%	45.6	--
2002	2003	16%	52.2	16%	52.2	--
2003	2004	18%	61.8	20%	72.4	(10.6)
2004	2005	20%	72.3	20%	72.3	0.0

* Tax year 2001 is actual amount; tax year 2002 and later includes the effect of the 2001 federal tax act.

Part 10

State Employment

State Employment

- Even with recent abolitions, the State workforce has grown nearly 10% over the last five years, but reliance on contractual employees has dropped 2.1 percentage points.
- The regular workforce reached its “high water mark” in fiscal 2002 when 82,087 FTE positions were authorized, this after steady growth since 1998. The fiscal 2003 regular workforce is slowly drifting back toward the fiscal 2002 level.
- 18,852 of the general funded regular FTE positions are exempt from the Governor’s hiring freeze.
- The vacancy rate in the State today is, on average, 8.4% for positions supported with general funds. The average annual general fund salary paid for these 3,050 FTE vacant positions is \$35,486. The total value of the salaries for these positions is \$108.2 million.
- Health, prescription, and dental insurance premiums are projected to rise by 14% between fiscal 2003 and 2004, but underfunding the base adds another \$14.2 million.

The Total State Workforce Has Grown Nearly 10% Over the Last Five Years

Full-time Equivalent Regular and Contractual Positions Fiscal 1998 and 2003

<u>Agency/Service Area</u>	<u>Total FY 1998 Actual</u>	<u>Total FY 2003 Working</u>	<u>Total Growth</u>	<u>Percent Change in Total</u>	<u>FY 1998 Percent Contractual</u>	<u>FY 2003 Percent Contractual</u>	<u>Change in Percent Contractual</u>
Higher Education	23,946.4	27,451.6	3,505.2	14.6%	22.3%	22.0%	(0.2)
Public Safety & Correctional Services	10,811.5	12,103.0	1,291.6	11.9%	2.8%	4.5%	1.7
Judiciary & Legal	4,261.4	5,043.6	782.2	18.4%	12.6%	9.1%	(3.5)
Juvenile Justice	1,466.4	2,136.1	669.7	45.7%	26.7%	6.5%	(20.1)
Subtotal	40,485.7	46,734.4	6,248.7	15.4%	16.2%	15.4%	(0.8)
Human Resources	7,594.3	7,893.2	298.9	3.9%	16.0%	2.0%	(13.9)
Executive & Administrative Control	1,512.9	1,797.0	284.1	18.8%	13.0%	10.8%	(2.3)
Natural Resources	1,807.1	2,068.5	261.4	14.5%	24.6%	23.8%	(0.9)
Other Education	1,993.3	2,243.6	250.3	12.6%	7.7%	10.0%	2.4
General Services	644.8	845.0	200.2	31.1%	7.3%	5.0%	(2.2)
Transportation	9,339.0	9,490.9	151.8	1.6%	2.9%	1.8%	(1.1)
Budget & Management	420.3	565.5	145.2	34.5%	7.1%	6.0%	(1.1)
Environment	978.3	1,086.6	108.3	11.1%	8.1%	5.0%	(3.0)
Police & Fire Marshal	2,519.6	2,611.9	92.3	3.7%	1.6%	1.4%	(0.2)
Health & Mental Hygiene	8,652.6	8,735.6	83.0	1.0%	4.9%	6.1%	1.2
Legislative	652.0	730.0	78.0	12.0%	0.0%	0.0%	-
Housing & Community Development	446.8	504.9	58.1	13.0%	14.8%	16.0%	1.2
Retirement	159.2	216.0	56.8	35.7%	3.0%	14.6%	11.6
Agriculture	449.0	501.5	52.6	11.7%	9.3%	8.3%	(1.0)
Business & Economic Development	318.3	365.1	46.8	14.7%	25.9%	12.6%	(13.2)
Financial & Revenue Administration	2,131.3	2,136.8	5.5	0.3%	2.5%	1.6%	(0.9)
Labor, Licensing, & Regulation	1,898.4	1,723.7	(174.7)	-9.2%	19.2%	6.2%	(13.0)
Unallocated reductions in contractual employment¹:		(339.0)					
Total	82,003.0	89,911.2	7,908.2	9.6%	12.3%	10.2%	(2.1)
<hr/>							
Summary:							
Non-higher Education	58,056.5	62,798.5	4,742.0	8.2%	8.2%	5.4%	(2.7)
Higher Education	23,946.4	27,451.6	3,505.2	14.6%	22.3%	22.0%	(0.2)

¹ Please note that the total number of contractual FTEs in the fiscal 2003 working appropriation includes 339 unallocated reductions resulting from the position cap requirements of Section 37 of the budget bill. These reductions are taken in the total only.

The Regular Workforce Reached Its "High Water Mark" in Fiscal 2002 and Is Drifting Back Up

2002 Session, Post-Session, and Fiscal 2003

Full-time Equivalent Regular Positions

<u>Agency/Service Area</u>	<u>Fiscal 2002 Actual</u>	<u>Fiscal 2003 Allowance</u>	<u>2002 Session Legislative Reductions</u>	<u>Section 37 Abolitions</u>	<u>Fiscal 2002 BPW/Agency PIN Actions Post-Allowance*</u>	<u>July 1, 2002 Authorizations</u>	<u>"Rule of 500" Additions</u>	<u>Rule of 500 Additions (Exempt)</u>	<u>Fiscal 2003 Working Appropriations</u>
Legislative	730.0	730.0	-	-	-	730.0	-		730.0
Judiciary	3,009.8	3,321.8	(98.0)	-	(0.1)	3,223.8	-	-	3,223.8
Legal	1,380.9	1,371.9	(5.0)	(19.0)	13.0	1,360.9	-	-	1,360.9
Executive & Administrative Control	1,618.8	1,653.7	(16.5)	(63.5)	4.0	1,577.7	1.0	25.0	1,603.7
Financial & Revenue Administration	2,158.2	2,162.7	(6.0)	(54.5)	-	2,102.2	-	-	2,102.2
Budget & Management	524.3	549.3	(2.0)	(23.0)	7.0	531.3	-	-	531.3
Retirement	193.5	193.5	(3.0)	(6.0)	-	184.5	-	-	184.5
General Services	793.0	848.5	(11.0)	(42.0)	-	795.5	7.0	-	802.5
Transportation	9,538.0	9,653.0	(12.0)	(322.5)	-	9,318.5	-	-	9,318.5
Natural Resources	1,629.2	1,638.2	(20.0)	(44.0)	3.0	1,577.2	-	-	1,577.2
Agriculture	480.0	473.5	-	(13.5)	-	460.0	-	-	460.0
Health & Mental Hygiene	8,535.8	8,572.8	(28.3)	(445.1)	(0.0)	8,099.4	1.0	106.5	8,206.9
Human Resources	8,272.6	8,426.6	(52.3)	(653.7)	(6.5)	7,714.1	17.0	2.0	7,733.1
Labor, Licensing, & Regulation	1,706.0	1,716.0	(30.0)	(69.0)	-	1,617.0	-	-	1,617.0
Public Safety & Correctional Services	11,662.5	11,924.5	(196.0)	(264.0)	-	11,464.5	98.0	-	11,562.5
Other Education	1,955.0	1,985.5	-	(82.9)	-	1,902.6	12.0	104.0	2,018.6
Housing & Community Development	449.0	453.0	(7.0)	(22.0)	-	424.0	-	-	424.0
Business & Economic Development	324.0	325.0	(1.0)	(5.0)	-	319.0	-	-	319.0
Environment	1,028.0	1,114.0	(71.0)	(11.0)	-	1,032.0	-	-	1,032.0
Juvenile Justice	2,122.7	2,128.2	(33.0)	(99.0)	-	1,996.2	-	-	1,996.2
Police & Fire Marshal	2,589.5	2,621.5	(15.0)	(97.0)	-	2,509.5	47.0	18.0	2,574.5
Subtotal	60,700.7	61,863.2	(607.1)	(2,336.7)	20.4	58,939.9	183.0	255.5	59,378.4
Higher Education	21,386.2	21,696.6	-	(1,103.0)	1.9	20,595.5	50.0	754.0	21,399.5
Total	82,086.8	83,559.8	(607.1)	(3,439.7)	22.3	79,535.4	233.0	1,009.5	80,777.9

* Please note that these are positions created through the fiscal 2002 "Rule of 50," or through deficiency appropriations approved by the General Assembly. They also represent transfers between agencies and the abolition of positions other than those required by Section 37 of the budget bill.

18,852 General Funded Regular FTE Positions Are Exempt from the Hiring Freeze

<u>Agency/Service Area</u>	<u>Total Oct. 2002 FTE Positions</u>	<u>Total FTE GF Positions</u>	<u>Exempt FTE GF Positions</u>	<u>Percent Exempt</u>
Judiciary & Legal	4,584.7	4,481.0	3,613.1	80.6%
Executive & Administrative Control	1,603.7	935.2	53.9	5.8%
Financial & Revenue Administration	2,102.2	1,592.5	3.6	0.2%
Budget & Management	531.3	385.8	0.7	0.2%
Retirement	184.5	n/a	n/a	n/a
General Services	802.5	645.4	202.6	31.4%
Transportation	9,318.5	n/a	n/a	n/a
Natural Resources	1,577.2	923.1	244.5	26.5%
Agriculture	460.0	349.5	0.0	0.0%
Health & Mental Hygiene	8,206.9	6,980.1	3,553.2	50.9%
Human Resources	7,733.1	2,757.3	3.6	0.1%
Labor, Licensing, & Regulation	1,617.0	400.3	4.0	1.0%
Public Safety & Correctional Services	11,562.5	11,050.0	8,154.1	73.8%
Education (no higher education)	2,018.6	1,041.0	232.4	22.3%
Housing & Community Development	424.0	125.4	2.3	1.8%
Business & Economic Development	319.0	239.0	0.0	0.0%
Environment	1,032.0	482.4	1.4	0.3%
Juvenile Justice	1,996.2	1,811.6	1,365.0	75.3%
Police & Fire Marshal	2,574.5	2,030.5	1,417.5	69.8%
Total	58,648.4	36,229.9	18,852.0	52.0%

Please note that this table does not include higher education.

47.5% of General Fund Vacancies Are Exempt from Hiring Freeze

	All Vacancies		Exempt Vacancies			Non-exempt Vacancies	
	GF FTE Positions	Total Salaries	GF FTE Positions	% of All Vacancies	Total Salaries	GF FTE Positions	Total Salaries
Agency/Service Area							
Judiciary & Legal	394.5	\$12,687,087	313.4	79.4%	\$9,706,884	81.1	\$2,980,204
Executive & Administrative Control	62.6	\$2,699,350	3.0	4.8%	\$89,717	59.6	\$2,609,632
Financial & Revenue Administration	71.3	\$2,623,625	0.7	1.0%	\$16,310	70.6	\$2,607,315
Budget & Management	38.9	\$1,854,408	0.0	0.0%	\$0	38.9	\$1,854,408
Retirement	n/a	n/a	n/a	n/a	n/a	n/a	n/a
General Services	93.3	\$3,002,095	32.0	34.3%	\$910,190	61.3	\$2,091,905
Transportation	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Natural Resources	78.4	\$3,318,932	20.5	26.1%	\$1,056,220	57.9	\$2,262,712
Agriculture	23.9	\$877,721	0.0	0.0%	\$0	23.9	\$877,721
Health & Mental Hygiene	678.0	\$26,187,409	307.6	45.4%	\$12,441,833	370.4	\$13,745,576
Human Resources	135.8	\$4,712,471	0.0	0.0%	\$0	135.8	\$4,712,471
Labor, Licensing, & Regulation	29.8	\$1,021,692	1.4	4.7%	\$39,814	28.4	\$981,878
Public Safety & Correctional Services	762.0	\$25,726,269	419.7	55.1%	\$14,226,742	342.3	\$11,499,527
Education (no higher education)	107.3	\$4,619,326	25.4	23.7%	\$1,117,372	81.9	\$3,501,954
Housing & Community Development	8.4	\$343,712	0.3	3.4%	\$16,761	8.1	\$326,952
Business & Economic Development	12.0	\$632,706	0.0	0.0%	\$0	12.0	\$632,706
Environment	43.5	\$1,890,357	0.0	0.0%	\$0	43.5	\$1,890,357
Juvenile Justice	400.8	\$12,233,449	283.0	70.6%	\$8,567,014	117.8	\$3,666,436
Police & Fire Marshal	110.0	\$3,818,306	40.6	36.9%	\$1,674,474	69.4	\$2,143,833
Total	3,050.4	\$108,248,916	1,447.7	47.5%	\$49,863,331	1,602.8	\$58,385,586

Part 11

Spending Affordability Concept

State Spending Under the Spending Affordability Concept In Relation to Maryland Personal Income (\$ in Millions)

<u>Session/CY</u>	<u>Approp. Under SA</u>	<u>Percent Change</u>	<u>Personal Income</u>	<u>Percent Change</u>
1984	5,090		68,506	
1985	5,474	7.5%	74,853	9.3%
1986	5,909	8.0%	80,612	7.7%
1987	6,477	9.6%	87,731	8.8%
1988	7,041	8.7%	96,072	9.5%
1989	7,684	9.1%	104,005	8.3%
1990	8,374	9.0%	110,450	6.2%
1991	8,614	2.9%	114,466	3.6%
1992	8,667	0.6%	119,419	4.3%
1993	8,865	2.3%	124,076	3.9%
1994	9,332	5.3%	129,849	4.7%
1995	9,771	4.7%	135,116	4.1%
1996	10,119	3.6%	140,809	4.2%
1997	10,509	3.9%	148,827	5.7%
1998	10,999	4.7%	158,502	6.5%
1999	11,639	5.8%	167,245	5.5%
2000*	12,705	9.2%	180,354	7.8%
2001**	13,752	n/a	189,142	4.9%
2002***	14,221	3.4%	196,896	4.1%
2003***	14,576	2.5%	205,560	4.4%

* This is the 2000 session SAC appropriation that includes cigarette restitution funds (CRF). Without CRF, the increase would have been 6.87%.

**This is the 2001 session SAC appropriation utilizing a revised method for calculating the SAC limit. Subsequent years also reflect the revised methodology.

***Personal income is projected for CY 2002 and 2003.

Appropriations reflect post-session corrections and changes in methodology, and personal income reflects revisions to earlier years.